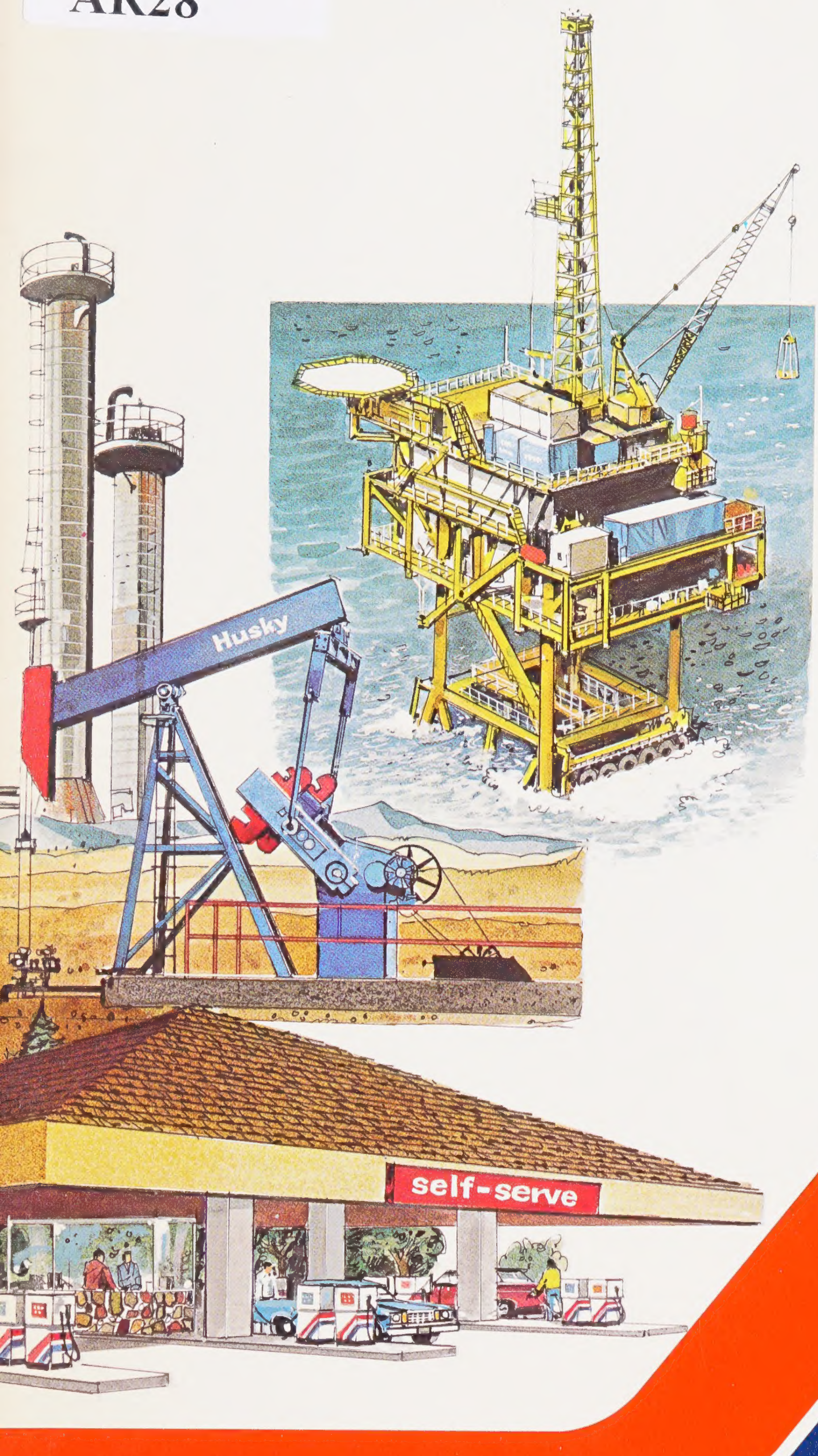


Husky Oil 1977 Annual Report

40 Years of Progress

New Cody oil field with City of Cody, Wyoming in background.

On December 31, 1977, Husky completed its 40th year in business. Founded on January 1, 1938, the company has experienced four decades of growth and expansion. The following are but a few of the significant events that have helped shape Husky as it is today and also set our future course:

1938 Husky Refining Company incorporated on January 1, 1938 by Glenn E. Nielson at Cody, Wyoming with a 900 barrel per day refinery, 19 employees and one producing lease.

1939-43 Acquired first service stations and producing properties.

1944 Built a fuel oil refinery in Riverton, Wyoming in 28 days to supply a special fuel oil to the U.S. Navy. Acquired leases in the Rangely, Colorado field.

1946-47 Began operations in Canada and because of steel shortage, moved the Riverton refinery to Lloydminster, Alberta. Organization of a subsidiary, Husky Oil and Refining Ltd.

1949 The Canadian company, Husky Oil and Refining Ltd. went "public" by selling common stock to the investing public.

1950-51 Husky Oil Company, the U.S. operation, acquired oil and gas leases in Texas and New Mexico. Gasoline now being sold through 63 retail outlets in Wyoming, Montana, Idaho and Utah. In Canada a five year contract was signed with Canadian National Railways to supply them with heavy fuel oil.

1952 First public offering of U.S. Husky Oil common stock — 200,000 shares were sold. $1 million modernization program was begun on the Cody refinery.

1953 Marketing operations began in Canada under the "Husky" brand. The Canadian and U.S. companies are separated.

1954 Gate City Steel Works, Inc. of Omaha, Nebraska was purchased. Acquisition of approximately 200 H. Earl Clack marketing outlets. Refineries were purchased at Ft. William, Ontario and Moose Jaw, Saskatchewan.

1955-56 International exploration was commenced. 44 additional marketing outlets in Canada.

1957 Began developing "Super Truck Stops" on main highway routes. Trans-Tex Drilling merged into Rimrock Tidelands.

1958 In Canada, acquired Liberal Petroleums Ltd. Husky increased retail outlets in the U.S. to 263.

1959 Cody refinery went through a major expansion. A briquetting plant was acquired at Dickinson, North Dakota.

1960 Canadian Husky became the parent company through the exchange of common shares.

1961-63 Commenced the Lloydminster project by building a two-way "yo-yo" pipeline between Lloydminster and Hardisty, Alberta. Briquetting operation was incorporated as Husky Briquetting and a plant was added at Bienfait, Saskatchewan. Accelerated Lloydminster land acquisitions.

1964-65 Second pipeline built between Lloydminster and Hardisty. Acquired two more briquetting plants and additional plants for Gate City Steel.

1966-67 Acquired one million acres of Lloydminster area leases from Canadian Pacific Oil and Gas Ltd. Participated in Quirk Creek, Alberta foothills discovery.

1968 Assets of Frontier Refining Company were acquired with three refineries and 945 service stations in 17 western states.

1969 A third new pipeline was constructed between Lloydminster and Hardisty. Both the carbon and steel operations acquired new plants.

1971 Husky became a participant in the Sea Search Group in the North Sea. Continued expansion of Travel Center program along major highways in North America.

1972-73 James E. Nielson named president and chief executive officer, succeeding Gene E. Roark. Exploration begins in the Sulu Sea offshore the Philippine Islands.

1974 Continued Philippine and North Sea exploration. Acquired Block 329 offshore Louisiana. Production office opened in Santa Maria, California.

1975 Successful New Mexico natural gas exploration program. Husky was selected to operate an exploration program on Naval Petroleum Reserve Number 4 on the North Slope of Alaska.

1976-77 U.S. exploration and production activity expanded. Oil discovered adjacent to the Cody, Wyoming refinery and natural gas in Gulf of Mexico. Discovered hydrocarbons offshore the Philippines and exploration activity commenced in Pakistan. Partner in a Nevada oil discovery. Acquired refinery at Prince George, British Columbia and 110 service stations in Canada from Union Oil Company of Canada. Gate City and Husky Industries expand operations. Record high financial results 1977 year of operation.

Year in Brief

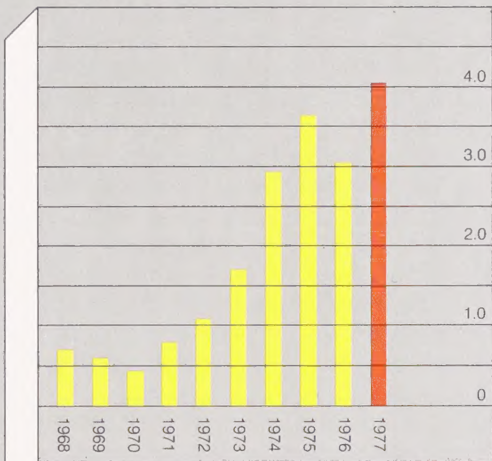
	Page
Financial	
Record high results	1
Exploration	
New Cody oil field	5
Fuller Reservoir drilling	5
Joint venture exploration program	5
Philippines offshore discovery	6
North Sea discovery	6
Pakistan offshore exploratory drilling	6
Production	
Record high revenues	9
Continued Lloydminster development	9
Development of Louisiana offshore discovery	9
Acquisition of California properties	10
Special technical group	10
Canadian crude oil price increases	10
Saskatchewan legislation change	10
Refining and Marketing	
Record high throughput	13
Upgrading plant proposal	13
Refinery modification projects	13
Lloydminster blend sales contract	13
Record high sales	15
Feedstock to U.S. refineries varied	15
Car/Truckstop system of marketing outlets	15
National Petroleum Reserve, Alaska	19

Highlights of Operations

Financial	1977	1976
	thousands of dollars	
Sales and operating revenues	$620,369	$522,357
Working capital provided by operations	100,131	73,953
Net earnings	42,807	30,025
Net earnings per common share (in dollars)	4.06	3.02
Capital expenditures	91,878	99,407
Working capital at end of year	55,083	49,248
Long-term debt at end of year	120,795	142,543

Operations		
Gross crude oil and gas liquids production (barrels daily)	47,937	44,726
Net crude oil and gas liquids production (barrels daily)	35,287	37,301
Gross natural gas production (MCF per day)	78,738	73,828
Net natural gas production (MCF per day)	61,061	55,618
Refinery runs (barrels daily)	59,521	55,719
Refined product sales (barrels daily)	68,638	64,895
Number of sales outlets	1,186	1,201

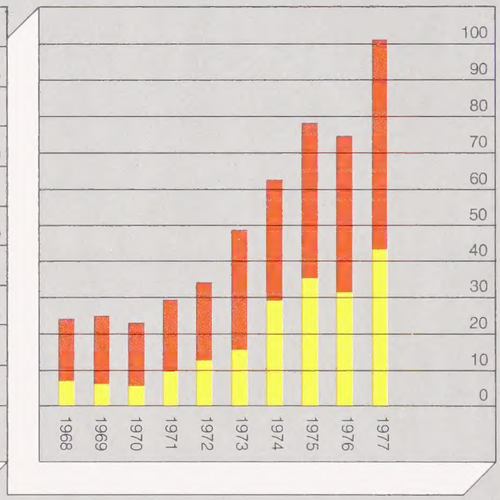
Net Earnings Per Share* In Dollars



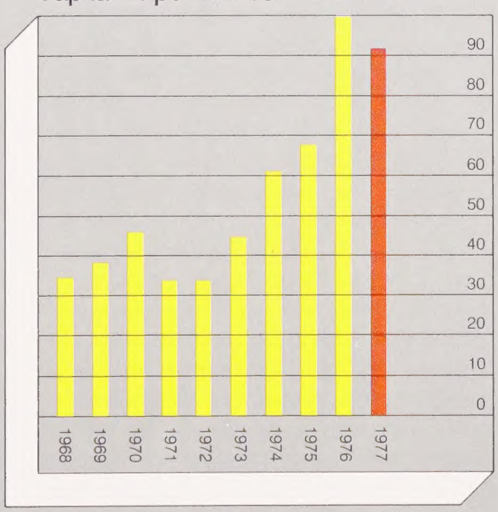
*Earnings from operations including extraordinary items

Net Earnings *In Millions of Dollars*

Working Capital from Operations



Capital Expenditures *In Millions of Dollars*



Letter to Shareholders

December 31, 1977 marked the completion of Husky's 40th year. Since its founding on January 1, 1938, in Cody, Wyoming, the company has experienced a history of growth and development. In 1977, Husky's financial results were the highest in the history of the company.

Predominant among the factors responsible for the 1977 progress are the contributions made by our employees. The record levels of performance achieved last year are due to their dedicated efforts, loyalty and hard work. As a result, Husky continues to be a dynamic, growing company.

In review, Husky's 1977 record high earnings were $42.8 million, or $4.06 per share, an increase of 43 per cent over $30.0 million, or $3.02 per share in 1976. Sales and operating revenues increased 19 per cent to $620.4 million from $522.4 million the previous year. Working capital provided by operations improved 35 per cent to $100.1 million from $74.0 million in 1976. Our 1977 earnings represent a 6.9 per cent return on gross revenues compared to 5.7 per cent in 1976.

The company's record high financial results in 1977 were primarily due to improvements in all petroleum operations. Crude oil and natural gas revenues were the highest in the history of the company. In addition refining throughput and total refined product sales both established record highs for Husky in 1977. Husky's carbon operations improved over 1976 record high results while earnings from steel operations declined 31 per cent.

The capital program authorized for 1977 reached an all-time high of $124.2 million, up 19 per cent from $104.0 million in 1976. Capital spending for 1978 will continue to be directed toward our stated corporate objectives of maintaining or increasing cash flow and sales volumes, reducing sensitivity to seasonal markets and continuing to work toward balancing our production, refining and marketing volumes within both Canada and the United States. In support of these objectives, Husky's budgeted 1978 capital programs are projected to be $109.2 million, $101.2 million of which will be for regular work programs. The additional $8.0 million is to be spent on special projects. 1978 expenditures for oil and natural gas exploration and production will be the largest in the company's history at $75.3 million, with $33.6 million programmed to be spent in Canada, $35.2 million in the United States and $6.5 million in international exploration.

In short, in the near term we are working to reach a balance in our operations and to improve our cash flow while involving ourselves in intermediate and long range situations having substantial potential.

The past year was one of follow-up and development of earlier significant exploration discoveries. We continued drilling and development of the 1976 Cody Oilfield discovery adjacent to our Cody, Wyoming refinery. Further drilling and development was also conducted on our natural gas discoveries offshore Louisiana, in New Mexico and in the Wind River Basin of Wyoming. In addition, 1977 was a year of new exploration projects in the Rocky Mountain region of the United States and in Western Canada.

During 1977 Husky entered into a $36.0 million exploration joint venture with a subsidiary of Panhandle Eastern Pipeline Company to explore for natural gas in Wyoming and northern Colorado. Active exploration and development work continued in the Lloydminster region of Alberta/ Saskatchewan in addition to an expansion of our land position there. In Western Canada, Husky continued a moderate exploration program particularly directed towards an expanded natural gas position. Overseas, we participated in an oil discovery offshore the Philippines where further drilling is continuing. Our land position has been increased offshore Palawan Island. During 1977 we participated in drilling a discovery in the North Sea and we recently commenced drilling our first well offshore Pakistan.

Recognizing the significant contribution heavy oil reserves can make towards increased North American energy supplies, Husky announced in 1977 plans for the construction of a heavy crude upgrading plant in Western Canada. This plant would upgrade Western Canadian heavy crudes into a feedstock usable by all Canadian refineries and would provide an expanded market for heavy oil production. At the same time the plant would help reduce Canada's forecast need to continually increase foreign crude oil imports. Discussions and negotiations are presently being conducted with heavy oil producers and provincial and federal governments.

The growing recognition of the value of the large accumulations of heavy oil in both Canada and the United States has led to an emerging understanding of the unique nature of heavy oil reserves, reservoir characteristics and oil in place per acre foot relationships. In short, heavy oil reserves are not precisely comparable with light oil reserves. Our holdings in the Lloydminster area, our interests in the Athabasca and Cold Lake regions of Alberta together with our positions in the heavy oil areas of the United States, particularly California, give us a significant potential for the future. In order to better utilize this resource and increase the recovery of oil in place, a special enhanced recovery study group was formed during 1977 to investigate methods of producing more of the oil in place.

Modernization and expansion programs were commenced last year at Husky's Cheyenne, Wyoming and Prince George, British Columbia refineries. Both projects are expected to be completed and operational in 1978. The Cheyenne modification will reduce Husky's dependence on the highly seasonal asphalt and fuel oil markets. The program at both plants will increase their capacity and ability to produce a wider range of light oil products. Upgrading of our service station outlets continued throughout 1977. Husky, as it has for years, con-

tinues to modify its retail outlets and service facilities in response to customer demand.

During 1977, Husky began the third year as operator under a five year exploration management contract for the U.S. Government on the National Petroleum Reserve, Alaska. Under the cost-plus fixed fee contract, Husky is responsible in the current fiscal year for managing a $190 million program covering the 24 million acres of the reserve and involving more than 800 direct employees and contractor personnel. The company is actively pursuing similar contract operations in other areas of the world.

In our consideration and assessment of future developments, our greatest concern is the rapid increase in inflation. Inflation affects our intermediate and long range capital investment and operational plans. The weakness of the dollar in world markets has a profound effect upon every aspect of our operations and influences our decisions. North American economics cannot be viewed in isolation and we at Husky, as well as all others in business, are recognizing that we must look at economics and energy on a world wide basis.

One of the major factors contributing to North America's inflation and economic problems is the delay in becoming less dependent on overseas sources of energy. Political and governmental decisions, or the lack thereof, have been, and are presently obstacles in the industry's ability to move toward reduced dependency. We are encouraged that both the United States and Canadian governments have recognized the need to develop an energy policy. Both should be commended for focusing attention on national energy needs. Canada has moved toward an energy policy. The Canadian government has recognized the reality of world prices for petroleum and has adopted a pattern of price increases. Natural gas pricing policies take into account the reality that gas must be priced with oil on a comparable BTU basis. Also recognized is the fact that exploration for and development of new sources of oil and gas will not occur without proper economic incentives to the producer. The only major area of debate in Canada is how the portion of increased oil and gas revenues is to be shared between the producer and the federal and provincial governments.

In the United States, debate still continues over a national energy program. At the same time, existing and proposed legislation continues to expand government regulation of the oil and natural gas industry. It is unfortunate that many in the government and much of the public do not seem to recognize that the marketplace is the best allocator of a resource or product. Moreover, the major pieces of proposed legislation do not recognize the need to stimulate and increase domestic exploration and production nor the importance of encouraging the capital formation required for the rapidly increasing and necessary energy investments.

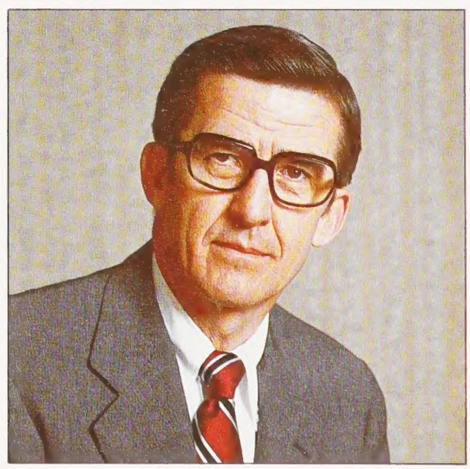
Given these problems, there is a glimmering of light at the end of the tunnel. While delay is occurring in the enactment of the National Energy Plan, some of this delay is a result of lawmakers awakening to the fact that the private sector is still the most efficient provider of energy supplies and that proper return on investment and other economic incentives are mandatory if domestic energy production is to be increased. Such an awareness by lawmakers, while creating a delay and uncertainty, is encouraging.

Today, all business decisions must take into account the uncertainties arising from the actions or lack of action of governments. Decisions reached in 1978 and years to come by governments in both Canada and the United States, at all levels, will have a significant effect upon the future of our company. Husky is devoting more and more time and effort in providing input into the governmental process, both legislative and administrative. We will continue to do so and to speak out on the issues in order to convey the facts of energy not only to governments but to the public in general.

While some of what we have said as Husky begins its forty-first year may sound pessimistic, the fact is the opposite is true. We are optimistic that many opportunities exist for our company and our industry. We feel we have positioned ourselves to take advantage of emerging opportunities in Canada, the United States and overseas. Husky will continue its success if we keep alert to these opportunities and to the changing nature of governments. Most importantly, we must continue, in our decisions and actions, to properly consider the interests of our customers, investors and the general public.

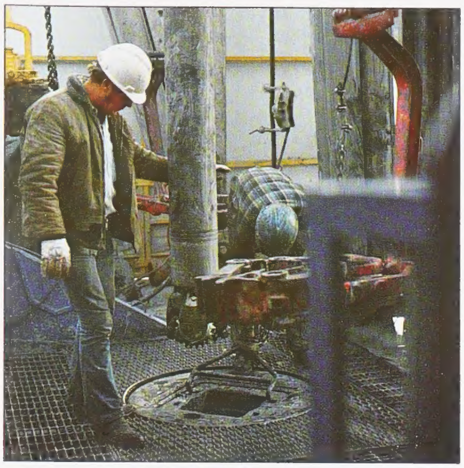
Glenn E. Nielson
chairman of the board

James E. Nielson
president



Review of Operations

Exploration



The main thrust of Husky's exploration effort in 1977 was to strengthen programs throughout the company. In the United States we made significant progress in building our organization by the addition of several highly qualified individuals to Husky's staff. The company also entered into a major exploration joint venture with a subsidiary of Panhandle Eastern Pipeline Company to explore for natural gas in the Rocky Mountains. In our International operations, Husky participated in discoveries in the North Sea and offshore the Philippines as well as increasing its position offshore the Philippines. In addition, our work in Pakistan has reached the point of developing drillable prospects. In Canada much of our efforts were directed towards increasing our land position, particularly in the Lloydminster area.

Confirmation drilling of 1976 discoveries set up the development of an oilfield in the Big Horn Basin and natural gas fields in the Wind River Basin and offshore Louisiana.

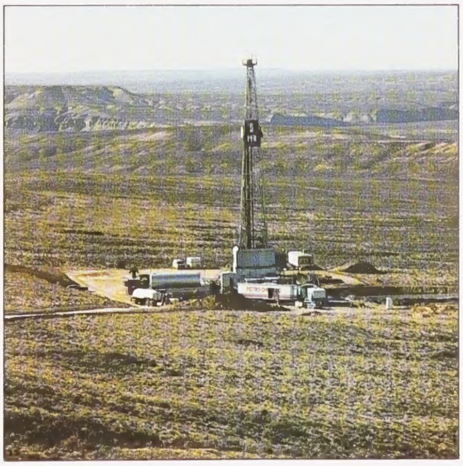
In the Big Horn Basin of Wyoming, the first offset to the Husky exploratory well, which discovered the new Cody oil field, was completed in the Phosphoria formation at an initial production rate of 250 barrels per day. A third well was drilled one mile north of the discovery well and was also completed in the Phosphoria formation at an initial production rate of 450 barrels per day. The fourth and fifth wells are now being completed, while the sixth and seventh wells in the field are drilling. Husky has a 100 per cent working interest in the new field.

At Fuller Reservoir in the Wind River Basin of Wyoming, a well was drilled and completed approximately one-half mile from a 1976 deep test which had encountered multiple gas pay zones from 4,000 to 10,000 feet. The offset well, completed in a Fort Union Sand at approximately 6,500 feet has been production tested at a rate of 4 million cubic feet per day against a back pressure of 800 pounds per square inch. Additional drilling in Fuller Reservoir is scheduled for 1978. Husky has a 30 per cent working interest in this new field.

During the second quarter, Husky entered into a 4 year, $36 million exploration program with Pan Eastern Exploration Company, a subsidiary of Panhandle Eastern Pipeline Company, to explore for natural gas in the Big Horn, Wind River, and Green River Basins of Wyoming and Northern Colorado. Husky is operator in the joint venture and is furnishing the exploration and operating staffs, $7 million in funds and an initial contribution of approximately 220 thousand acres of land. Pan Eastern will contribute $18 million in funds. The cost of development for any discoveries will be shared equally and will be in addition to the commitment for exploration. Husky will have a 60 per cent and Pan Eastern a 40 per cent interest in the co-venture properties.

Pan Eastern has the right to purchase all natural gas with the exception of some equity gas Husky can reserve for use in its Rocky Mountain refineries. Husky has the right to purchase all crude oil and natural gas liquids production.

In the program, four 10,000 foot Ericson tests were drilled in the Green River Basin and abandoned. The fifth well, a Nugget test scheduled for 18,300 feet, is currently drilling below 10,000 feet. This test, known as Massacre Hills, is located on a large feature near the City of Green River, Wyoming. In addition, significant geological and geophysical work programs are underway in all three Basins as well as in the overthrust area of Wyoming, Idaho and Utah.



Opposite page: *Offshore drilling – Vermilion Block 329, Gulf of Mexico, confirming earlier natural gas discovery.*

Top: *Derrick floor – exploration drilling.*

Left: *Exploration drilling – Green River Basin, Wyoming.*

Geophysical work and active exploratory drilling continued in the Lloydminster region of Alberta/Saskatchewan in 1977. In addition to expanding its land position in the area, Husky drilled a total of 18 exploratory wells during the year. Results include two oil wells, five natural gas wells and three indicated oil and natural gas wells.

As a result of a successful shallow natural gas program in Southern Alberta and increased emphasis on the natural gas potential of Lloydminster, the company acquired additional land in natural gas prone areas in Eastern and Central Alberta during 1977.

In Southeast New Mexico, our ongoing exploration program for deep natural gas is continuing to produce favorable results. This program is expected to continue for a number of years. Husky has varying interests in approximately 30,000 acres in Southeast New Mexico, much of which is held by shallow production but has deep production potential.

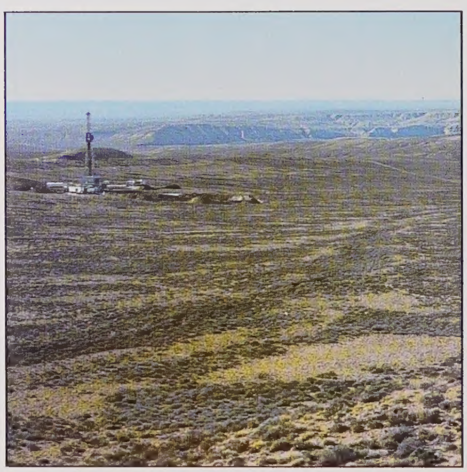
Husky has a one-third working interest in a 1977 oil discovery on the Northwest shelf off Palawan Island, offshore the Philippines. The discovery well, Amoco-Husky Cadlao #1 flowed 47.7 degree gravity oil at a rate of 3,630 barrels per day from a limestone reef at a depth of approximately 6,000 feet. Further drilling is required to establish the significance of the discovery.

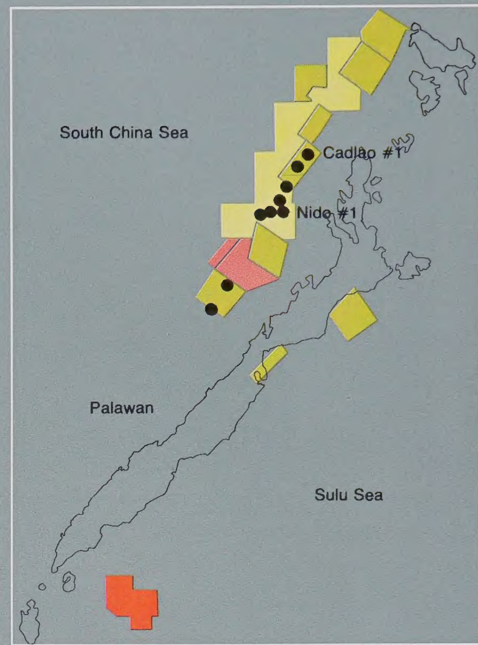
Early in 1978 Husky entered into a fourth exploration concession arrangement in an area contiguous with two of the company's other concession areas offshore the Philippines. Husky will earn a 20 per cent working interest in the new concession area. Husky has a dominant land position in the region, with varying interests in a total of approximately 4,000,000 acres offshore the Philippines.

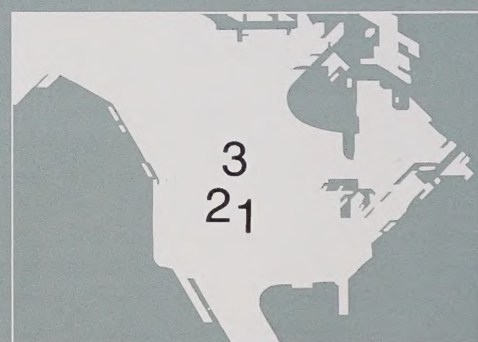
An exploratory well drilled on Block 16/26 in the United Kingdom sector of the North Sea discovered natural gas and condensate. The discovery well flowed natural gas at a rate of 12.3 million cubic feet per day and 54 degree gravity condensate at a rate of 879 barrels per day from Cretaceous sands through a one-half inch choke. Oil had been tested earlier from thin Jurassic sands encountered deeper in the well. More drilling on Block 16/26 will be carried out after additional seismic is conducted.

Husky is currently drilling an exploratory well offshore Pakistan. The well, Husky Karachi South A-1, is located 22 miles from Karachi, in 70 feet of water. The well is projected for 10,000 feet to test the Paleocene and Cretaceous horizons on a large structural feature. Husky has a 95 per cent working interest in a concession covering 6,800 square miles in the Delta region of the Indus River, half onshore and half offshore. The remaining 5 per cent is held by the Pakistan Oil and Gas Development Corporation (OGDC). The exploratory test follows extensive geological and geophysical work conducted in the area since early in 1976.

Above: *Derrick floor – exploration drilling.*
Below: *Western Wyoming exploratory drilling.*

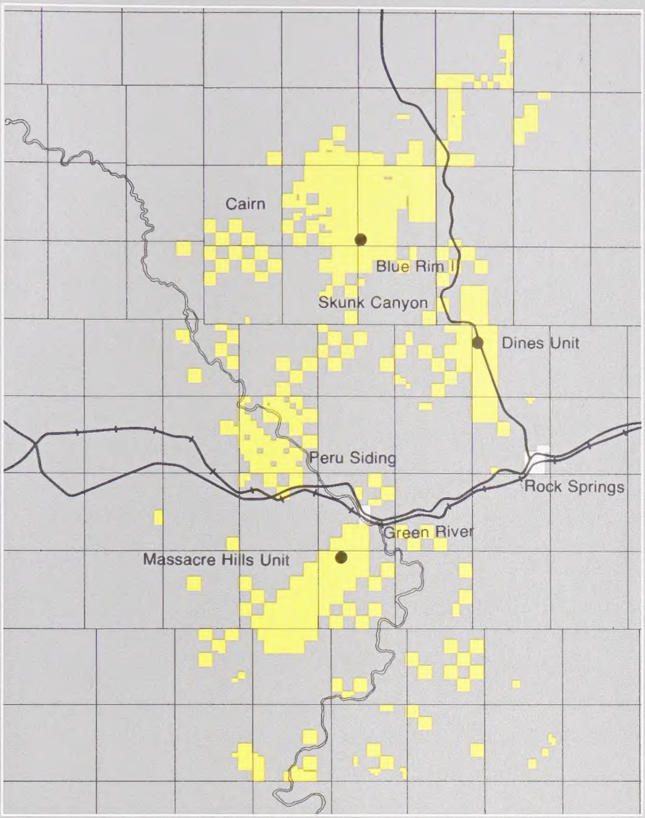




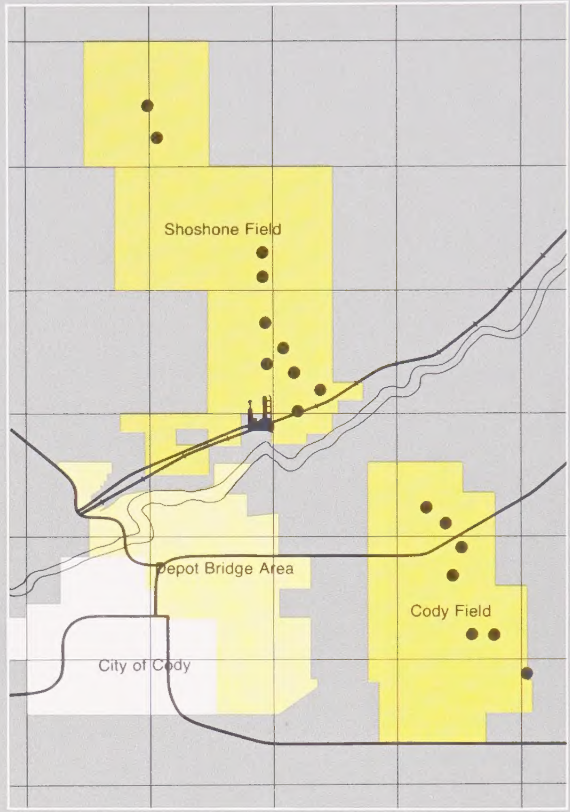


Philippines Acreage Interest

- 2,134,521 acres
- 1,278,176 acres
- 311,547 acres
- 380,534 acres

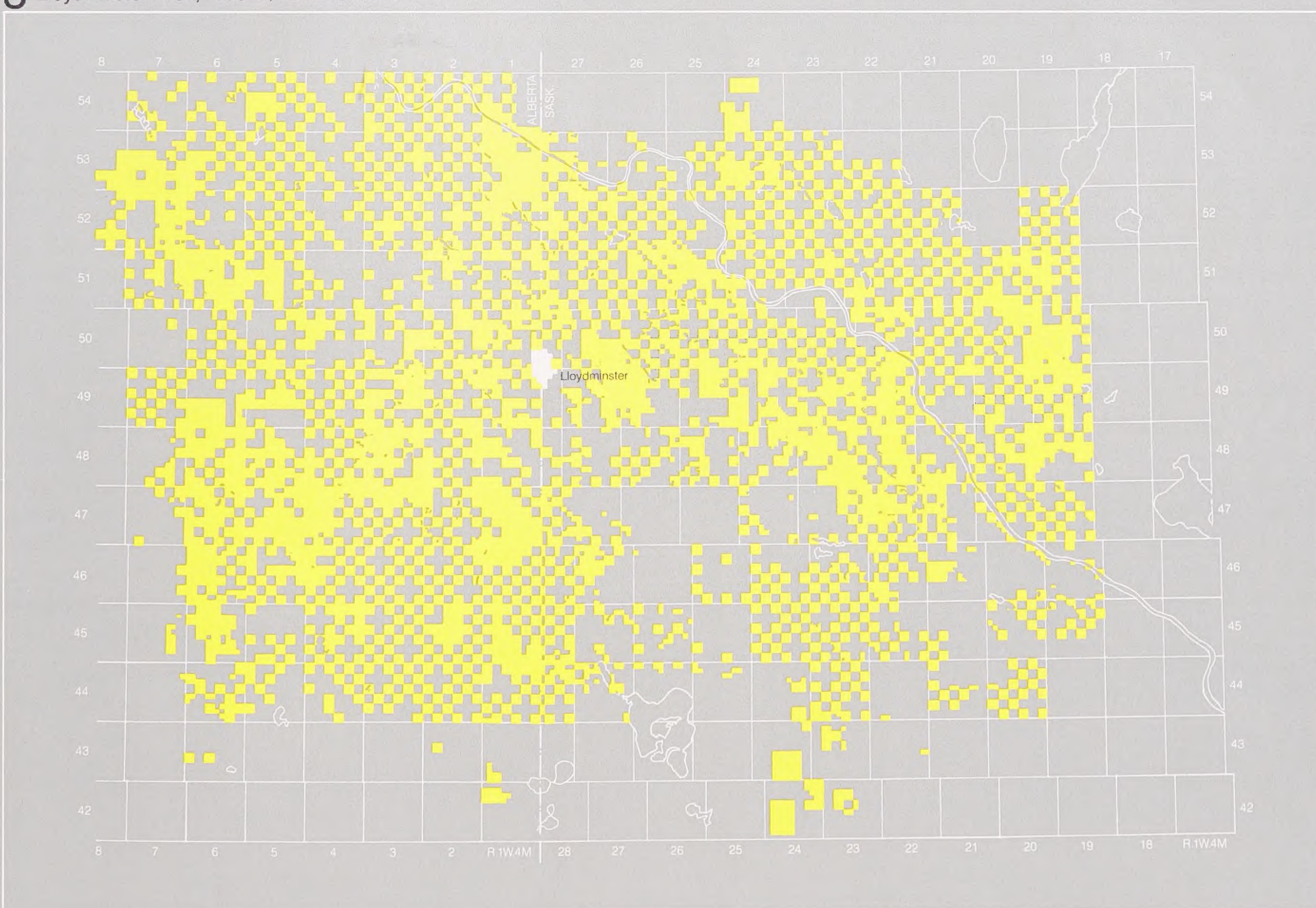


1 Green River Basin, Wyoming



2 Cody-Shoshone Area, Wyoming

3 Lloydminster Area, Alberta/Saskatchewan



Areas are not shown to scale.

Production

Opposite page: *Crude oil pumping unit.*

Opposite page-inset: *Production battery – Lloydminster.*

Above right: *Crude treating unit – Lloydminster*

Above: *Pumping units and treaters – Santa Maria, California.*

Below right: *Canadian production battery.*

In 1977, Husky's revenues from the production of crude oil and natural gas were the highest in the history of the company.

Gross crude oil production increased by approximately 7 per cent to 47,900 barrels per day during 1977 from 44,700 barrels per day in 1976. Net crude oil production averaged 35,300 barrels per day compared to 37,300 barrels per day the previous year. The reduction in the comparative net crude oil volumes is mainly the result of a change by the Saskatchewan Government in its method of revenue collection on oil production from a surcharge system to a royalty method. Although the new method has the effect of reducing net crude oil production volumes, the changes have not significantly affected Husky's production income per barrel produced

Gross natural gas production also increased by approximately 7 per cent to 78.7 million cubic feet per day in 1977 from 73.8 million cubic feet per day a year earlier. Net natural gas production increased to 61.1 million cubic feet per day from 55.6 million cubic feet per day in 1976. The increase in natural gas production is primarily due to increased production in Alberta and from various properties in New Mexico following successful exploration programs in those areas. In addition, the company has the immediate capability of substantially increasing its Canadian natural gas production rate which is currently curtailed as a result of an oversupply of natural gas in Western Canada for the Canadian market.

Production increases in 1977 were largely due to Husky's ability to return Lloydminster to an unrestricted producing status early in the year. Late in 1976 production from the field had been cut back one-third due to marketing restrictions. As a result, more than 550 Husky oil wells were shut in. This ban was lifted in the first quarter of 1977 and the field was essentially on full stream by mid-year.

Production from Husky operated properties in Lloydminster reached approximately 27,500 barrels per day. During the year 117 development wells were drilled, resulting in 101 completions. This level of development is expected to continue as

Husky has available a significant inventory of development drilling locations in the region.

Natural gas is becoming an increasingly important aspect of production operations on the Alberta side of our holdings in Lloydminster and will be emphasized in Husky's development of the area in future years.

Development of Husky's significant natural gas discovery on Block 329 offshore Louisiana in the Gulf of Mexico continued throughout 1977 with a drilling program following the construction and installation of an 8 slot four pile production platform. The seventh well on the block is currently drilling. Each development well has encountered multiple natural gas zones as were encountered in the discovery well. A total of eight wells are planned from the platform prior to delivery of the natural gas.

In early 1978 Husky signed a natural gas sales agreement with Panhandle Eastern Pipeline Company to sell the gas from Vermilion Block 329. This contract anticipates production rates in excess of 50 million cubic feet

per day. Natural gas sales are expected to begin from this platform in late 1978.

Early in 1977, Husky purchased the oil and natural gas producing properties of the Gilliland Oil and Gas Corporation in the Santa Maria Basin of California. These properties are adjacent to Husky's Clark Avenue production in the region. The $7 million acquisition includes four producing leases totalling 800 acres and containing 35 wells with additional development prospects.

During the year, a special technical group was formed by Husky to work exclusively on field research, development and improvement of enhanced oil recovery technology. Building from Husky's base of information developed over a period of 40 years of heavy oil operations and technical eminence in heavy oil recovery projects in both the United States and Canada, the special enhanced recovery group will work to provide the company with new and improved methods that can be economically applied to large scale operations on our holdings in Lloydminster, Cold Lake and Athabasca as well as in California.

The normal method of analyzing a company's production base by calculating a reserve index is misleading when applied to a heavy oil producer such as Husky. For instance, a recently completed detailed study by Husky identified 16 billion barrels of oil in place in the Lloydminster area. The company's interest in the region is about 1.6 million acres of some 4 million acres involved in the study. Historically in Lloydminster Husky has recovered approximately 5 per cent of the oil in place through primary production and an additional 3 to 5 per cent through secondary recovery by water flooding. Thus, over 90 per cent of the original oil in place is still in the reservoir when these activities are completed. More oil per acre foot of reservoir is left in the ground after depletion of a field by primary and secondary production methods than the total amount present in many light oil fields before production begins. With this important incentive to develop tertiary oil recovery methods, Husky is placing more emphasis on this technical development.

Production activity in 1977 also included development in the Ackman Unit in Nebraska and a development drilling program outside the boundary of the Rangely Unit in northwestern Colorado. The successful development drilling program outside of the Rangely Unit has increased the company's inventory of potential development locations in an area in which Husky has 50 to 75 per cent working interests.

The posted price for Canadian crude oil production at the well head was increased $1 per barrel on July 1, 1977 and a further $1 per barrel on January 1, 1978. The Canadian Government has announced scheduled price increases of the same magnitude for July 1, 1978 and January 1, 1979. Part of the price increases will be passed on to the producer.

As a result of litigation instituted by another oil company, The Supreme Court of Canada, in effect, declared the Province of Saskatchewan's method of collecting much of its revenue on oil and natural gas production invalid. The Saskatchewan Government has subsequently enacted legislation (Bill 47) by which it expects to restore these revenues to the Province retroactively.

The effect on Husky of the new legislation cannot be ascertained until regulations, under which the new Bill is to be administered, are promulgated. The Saskatchewan Government has indicated it does not intend, through the new legislation, to make a significant change in the amount of revenues the industry receives. Husky is continuing to account on the basis of, and financial records reflect, taxes and royalties at the same rate as prior to Bill 47.

	as at December 31, 1977	1976
Proven Net Reserves		
Crude Oil (barrels)	98,901,000	99,671,000
Natural Gas (thousands of cubic feet)	292,203,000	267,808,000
Probable Net Reserves		
Crude Oil (barrels)	23,695,000	18,267,000
Natural Gas (thousands of cubic feet)	42,342,000	37,538,000
Combined Proven and Probable Net Reserves		
Crude Oil (barrels)	122,596,000	117,938,000
Natural Gas (thousands of cubic feet)	334,545,000	305,346,000

Above: *Pipeline terminal – Lloydminster.*
Below: *Lloydminster pumping unit maintenance.*

Summary of Wells Drilled

Gross Wells

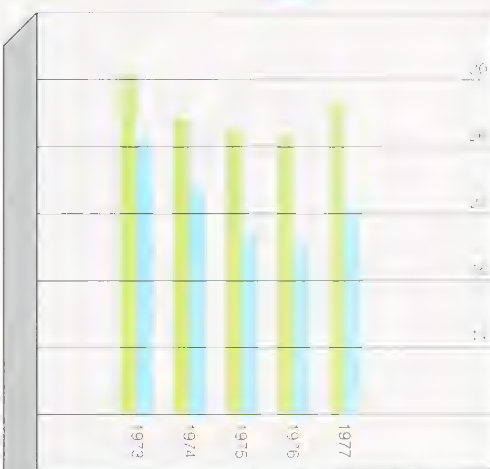
	Oil	Gas	Dry	Total
Exploratory Drilling	7	19	37	63
Development Drilling	242	30	25	297
Total	249	49	62	360

Net Wells

	Oil	Gas	Dry	Total
Exploratory Drilling	3	10	19	32
Development Drilling	123	7	20	150
Total	126	17	39	182

Gross Production Natural Gas

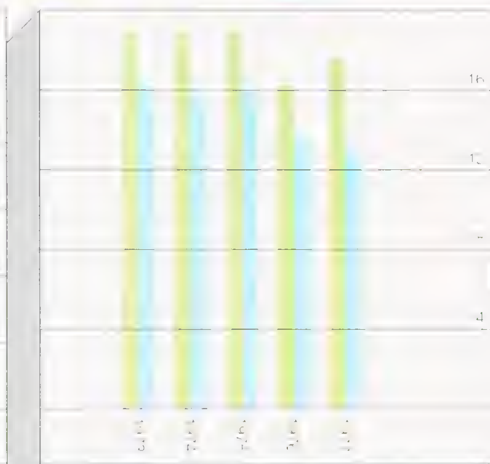
Net Production Natural Gas



Billions of cubic feet

Gross Production Crude Oil and Gas Liquids

Net Production Crude Oil and Gas Liquids



Millions of Barrels

Summary of Gross and Net Production

	Oil and Gas Liquids				Natural Gas			
	1977		1976		1977		1976	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	Thousands of Barrels				Millions of Cubic Feet			
CANADA								
Alberta	2,923	2,191	2,838	2,148	15,194	10,553	15,572	10,581
Ontario	4	3			472	387		
Saskatchewan	954	560	854	739	700	643	822	730
Lloydminster	7,239	4,803	6,399	5,587	3,362	3,060	2,084	1,869
Total CANADA	11,120	7,557	10,091	8,474	19,728	14,643	18,478	13,180
UNITED STATES								
Colorado	811	635	769	600	202	184	122	114
Montana	234	200	216	185				
New Mexico	776	666	791	677	5,072	4,329	4,482	3,732
Texas	363	295	396	325	928	803	1,129	977
Wyoming	2,741	2,320	2,842	2,390	1,668	1,433	1,928	1,658
Other Areas	1,453	1,206	1,220	964	1,142	895	808	640
Total UNITED STATES	6,378	5,322	6,234	5,141	9,012	7,644	8,469	7,121
Total CANADA and UNITED STATES	17,498	12,879	16,325	13,615	28,740	22,287	26,947	20,301

Refining, Marketing, Supply and Distribution

In 1977, Husky's refining throughput, which increased to 59,500 barrels per day from 55,700 barrels per day in the previous year, was the highest in the history of the company.

Husky has five small special purpose refineries. Three are located in the Rocky Mountain region of the United States at Cody and Cheyenne, Wyoming and at North Salt Lake, Utah. Two are in Western Canada at Lloydminster, Alberta and Prince George, British Columbia.

Late in the third quarter, Husky publically announced a proposal for the construction of a 100,000 barrel per day heavy crude oil upgrading facility to be located in the heavy oil region of the Lloydminster area which straddles the Alberta/Saskatchewan border. The proposed plant would upgrade Western Canadian heavy crude oils — currently surplus to Canadian needs in their present form — into a sweet 34 to 35 degree API crude oil readily acceptable in all Canadian refineries.

The proposed plant would upgrade heavy crudes for a fee, calculated on a "cost of service basis" each year. If the price difference between heavy crudes and the upgraded crude was insufficient to pay the upgrading fee, the governments involved would be asked to support the project by diverting a portion of the new income tax and royalty revenues generated from this new production so that the upgrading fee could be maintained.

Husky plans that the upgrading plant would be owned and developed by a new Canadian corporation to be comprised of Canadian investors, producers, refiners, governments or companies in which governments are involved. Suggested financing would be on the basis of 80 per cent long term debt and 20 per cent equity funds. The plant would be coordinated, managed and constructed by the consortium headed by Husky. Husky is prepared to provide up to 25 per cent of the equity funds required, subject to certain agreements between industry and governments. Discussions of the project with potential participants as well as various governments are in progress. Although the cost of the plant was originally estimated at $520 million, current estimates are substantially higher.

Improvements in sales of Lloydminster crude blend in 1977 followed a National Energy Board decision in Canada to separately license increased volumes of heavy oil for export to the United States. This resulted in substantial increases in sales of Lloydminster blend from inventory, particularly in the second quarter.

Husky had previously entered into a long term contract for the sale of 25,000 barrels per day of Lloydminster blend to a major oil company in Canada. Initial deliveries were commenced July 1, 1977. In addition, Husky's refinery in the area processes approximately 10-12,000 barrels per day while other volumes are currently moving in response to firm demand from United States and Canadian refineries.

At Cheyenne, Wyoming a refinery upgrading and expansion project now underway will allow the plant to run on more types of feedstock than previously and will reduce Husky's dependence on highly seasonal asphalt and fuel oil markets. The project will also improve the refinery's ability to convert heavy ends and asphalts to gasolines and fuel oil.

Modifications in progress at the Prince George, British Columbia refinery include de-bottlenecking of the existing plant, increasing throughput capacities from 8,000 barrels per day to 10,000 barrels per day and doubling current production of gasolines and distillates. Both projects are expected to be operational late in 1978.

Husky is continuing to study methods and install equipment in an effort to reduce the amount of energy consumed in the refining process. The company's energy consumption in refining has been reduced 21.2 per cent. Energy efficient methods and conservation practices are continuing.

Below: *Vessel maintenance – Salt Lake City.*

Opposite page: *North Salt Lake, Utah refinery.*

Opposite page-inset: *Prince George, British Columbia refinery.*

Summary of Refinery Runs

Refinery	1977	1976
	Thousands of Barrels	
Cheyenne, Wyoming	8,653	8,331
Cody, Wyoming	4,219	4,102
North Salt Lake, Utah	2,980	4,135
Lloydminster, Alberta	3,452	3,368
Prince George, British Columbia	2,421	402
	21,725	20,338

Refined Product Sales *Barrels in Millions*

Marketing

In marketing activity in 1977, total refined product sales, light oil sales and rental revenues from Husky House restaurants as well as sales of tires, batteries and accessories were the highest in the company's history.

Refined product sales improved to 68,600 barrels per day from 64,900 barrels per day in 1976. Additional sales from the marketing outlets acquired from another company in Canada late in 1976 and a generally improved overall sales performance contributed to a nine per cent increase in light oil sales volume in 1977. In the United States, increased volumes have resulted primarily from conversion of existing outlets to self-service operation.

The establishment of additional company owned and independently owned and operated tires, batteries and accessories (TBA) stores plus greater sales efforts are expected to result in continued growth and improvement in earnings in this phase of our marketing department's activities.

Heavy oil sales, including volumes from the Prince George, British Columbia refinery acquired late in 1976 in Canada were up 33 per cent over 1976 volumes while heavy oil sales in the United States reflected a planned reduction in volume as a result of a previously stated objective to vary the type of feedstock to Husky's U.S. refineries. In particular, asphalt production at the Cheyenne, Wyoming refinery was reduced, altering crude supply from heavier to lighter feedstocks. Heavy oil profitability was improved in the United States during 1977.

Husky's unique Car/Truckstop system, which extends along the Trans-Canada Highway from Ontario to British Columbia in Canada and includes strategically spaced locations on interstate highways in the western United States, continues to play a major role in Husky marketing strategy and plans.

Car/Truckstops offer gasoline, diesel fuel, accessories, repair and maintenance service, sanitary off-loading for recreational vehicles and house trailers, propane and water, among other products and services and are equipped to meet a complete range of motoring, recreation and commercial trucking customer needs. Fully equipped Husky House restaurants, open 24 hours a day, are operated in conjunction with Car/Truckstops.

Husky House restaurants continue to make an important financial contribution as well as complementing Husky's Car/Truckstop system. Restaurant income of $2.6 million in 1977 exceeded the previous year's income by 13 per cent.

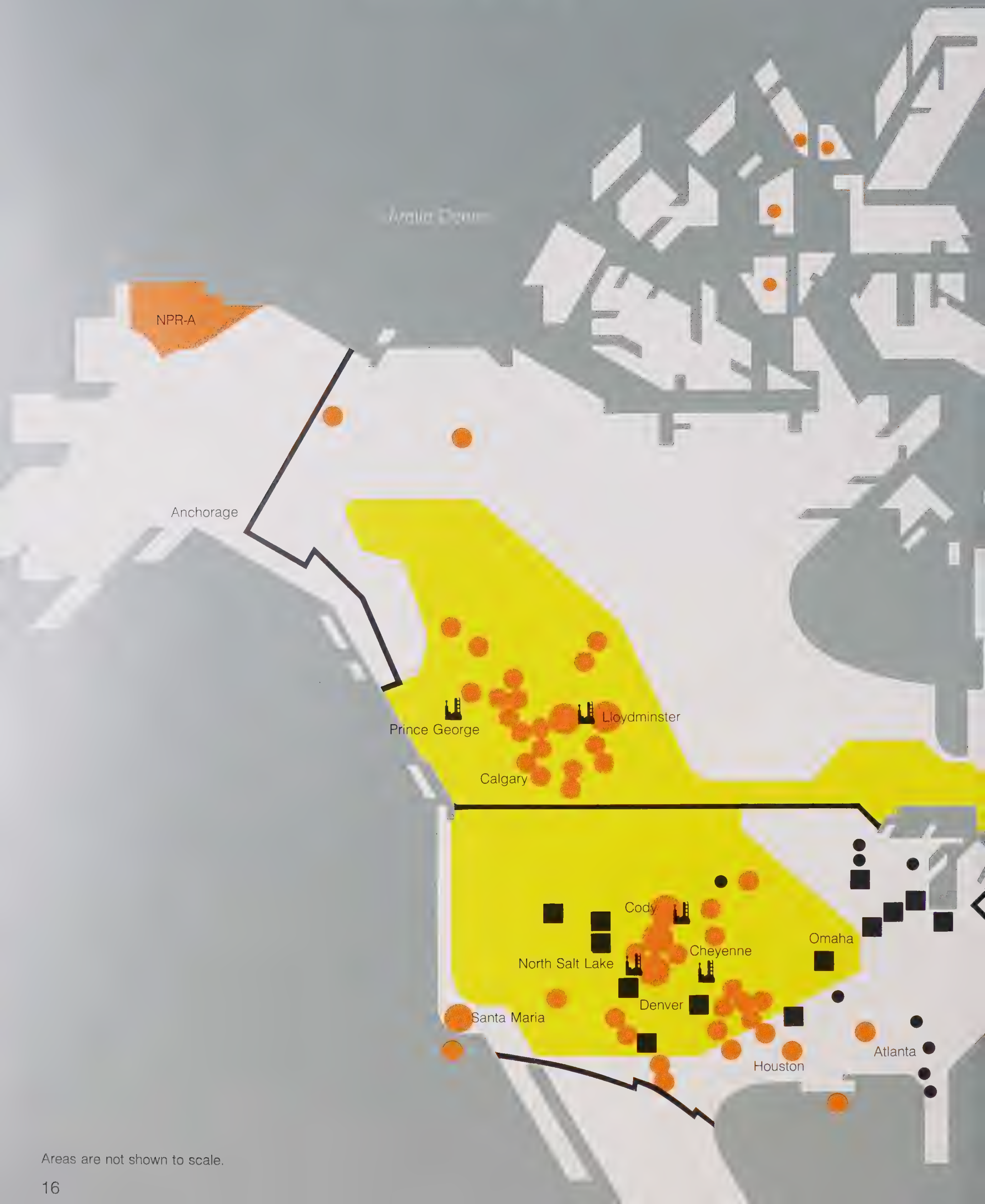
Opposite page: *New Husky identification on a recently acquired Canadian marketing outlet.*

Opposite page-inset: *Refined products tanker.*

Below left: *Husky House Restaurant – Oregon.*

Below right: *Full service Car/Truckstop.*

North America



Areas are not shown to scale.

Net Acreage Holdings and Rights on December 31, 1977

	Net Acres in thousands
CANADA	
Developed	369
Undeveloped	2,861
Total	3,230
UNITED STATES	
Developed	95
Undeveloped	1,127
Total	1,222
MINING CLAIMS AND PERMITS	
Canada	18

Areas of Oil and Gas Exploration Acreage

Marketing Area

Refineries

Gate City Steel

Husky Industries

Subsidiaries

Husky Oil NPR Operations, Inc.

Husky Oil NPR Operations, Inc., is presently in the third year of its five year cost plus fixed fee contract as operator to explore and develop the National Petroleum Reserve, Alaska — an area comprising 37,000 square miles on the North Slope. 1977-78 activities, which will involve a budget of $190 million administered by the U.S. Geological Survey of the Department of the Interior, include substantial geophysical and geological work as well as exploratory drilling.

Almost 1,900 line miles of a continuing seismic/gravity program are expected to be completed this year in the Southern Foothills, Umiat and Barrow areas, for a total of 5,900 line miles completed under Husky Oil NPR Operations management since the beginning of the contract.

Following a successful exploratory well which discovered a new shallow gas field last year near Point Barrow, two confirmation wells are scheduled for drilling early in 1978. The first of these is currently drilling and an exploratory well drilled this year in the Barrow area has been abandoned.

Six additional exploratory wells are planned for the 1977-78 drilling season. Four medium depth (7,200 to 12,200 feet) wells are currently drilling and two deep wells are planned for depths of 19,500 feet, the deepest ever drilled on the North Slope of Alaska.

Extensive supply, transportation and life support systems are indispensable to this northern exploratory program. For that reason, Camp Lonely was established by Husky as a major support facility capable of housing 100 people. Located on the coast of the Beaufort Sea, the camp has a substantial storage area as well as storage and maintenance buildings and a complete airport equipped with all necessary aids. The entire camp facility is operated by Husky personnel.

In the course of operations, supplies, fuel, equipment and personnel are transported by air to Lonely and other locations. More than 50 takeoffs and landings of aircraft occur per day during the peak season.

Although drilling and other exploratory activities are carried out during cold weather to protect the environment, long lead time and advance planning is necessary to ensure that as much material as possible is transported to the National Petroleum Reserve by barge during the short summer season.

The Husky Oil NPR Operations communications system has been expanded to three Earth Stations for direct communications via satellite telephones between drilling rig and construction sites and the Anchorage offices. An ongoing project will add the interstate link to provide direct communications between all Alaskan activities and the lower 48 states.

Of 137 people employed directly by Husky Oil NPR Operations, Inc., 68 are located on the National Petroleum Reserve and most of the others are in the Anchorage office. In addition, about 700 subcontractor personnel are engaged in the various activities of the program.

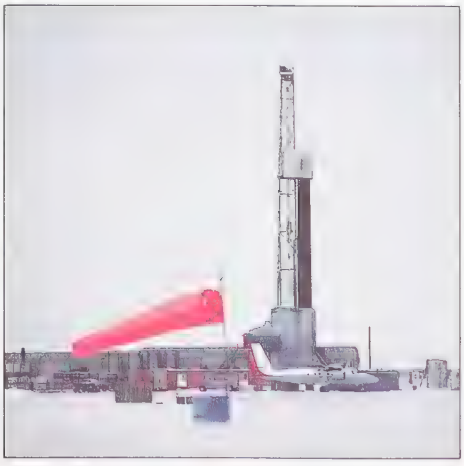
The concept of contract operation of a large scale project in a remote area, we believe, is applicable in other parts of the world. Husky is currently investigating other potential areas where this concept could be applied.

Opposite page: *Geophysical survey party – National Petroleum Reserve, Alaska.*

Opposite page-inset: *Recording seismic data.*

Below left: *Supply train and mobile camp.*

Below right: *Exploratory drilling with standby air transport.*




Gate City Steel

Gate City Steel, a wholly owned subsidiary of Husky, is engaged in warehousing, distribution and processing of steel and steel products and in the fabrication of concrete reinforcing bar and miscellaneous light steel. Gate City has 13 plants located in the midwestern and Rocky Mountain regions of the United States.

Gate City's sales for the twelve month period of 1977 increased 7 per cent over the previous year's results. Earnings, however, declined about 31 per cent as margins in the steel industry were adversely affected in a period of steel oversupply in the United States. In a reaction to an influx of foreign steel into the country in 1977, an import tariff system of "trigger" prices designed to balance the effect of such imported volumes of steel is currently being discussed.

At Boise, Idaho an old inefficient plant was replaced by a new facility which became operational during the first quarter of 1977.

The improved operation of Gate City's Gary, Indiana plant, acquired in 1976, partially offset the effects of continued slow markets in the steel industry generally in 1977. The plant substantially increases the company's capacity for decoiling and processing heavy gauge steel coils and includes equipment unique in the steel servicenter industry. It also allows for integrated leveling, slitting, shearing, stacking, conveying and banding of steel and aluminum. The Gary facilities, contained in a one million square foot plant, also provide a central warehousing function for Gate City's other plants.

During the fourth quarter a servicenter outlet was acquired at St. Paul, Minnesota. The new plant complements and is compatible with Gate City's market area and provides representation in the dynamic Twin Cities area of Minnesota.

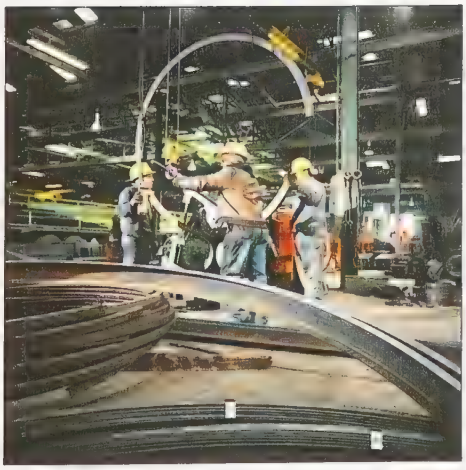
A significant portion of the supply to the St. Paul plant can be provided from Gate City's major inventory at Gary, Indiana.

Opposite page: *Multiple flame steel cutting*

Left: *Steel fabrication – Gary, Indiana*

Above: *Steel plate storage – Davenport, Iowa*

Below: *Steel coil storage – Gary, Indiana*



Husky Industries

Husky Industries manufactures barbecue briquets and activated carbon from eight plants located mainly in the midwestern and eastern regions of the United States.

Seven of the plants manufacture and market barbecue briquets while the eighth plant at Romeo, Florida manufactures activated carbon for municipal water treatment. Activated carbon sales are made directly and through distributors to a number of cities throughout the United States.

Husky Industries completed its fourth consecutive year of record high sales revenues and earnings in 1977. Revenues for the period increased slightly while earnings improved about 15 per cent over the previous year's figures.

At Dickinson, North Dakota a second multi-hearth furnace, designed to increase the plant's production, was installed in the first quarter of 1977 and became fully operational later in the year. The first multi-hearth furnace was installed at Dickinson in mid-1976.

In 1977 sales of briquets were approximately equivalent to the company's full plant capacities and improvements in Husky Industries financial results primarily reflect marketing advances in both activated carbon and charcoal briquet operations. Husky Industries is 80 per cent owned by Husky.

Opposite page: *A selection of consumer charcoal products.*

Below left: *Filling containers, charcoal lighter.*

Below centre: *Product shipping – Ocala, Florida.*

Below right: *Briquet bagging – Florida.*

Financial Review

Management's Discussion and Analysis of the Financial and Operating Summary

The following is Management's description of certain significant factors which have affected the Company's operations for 1977 and 1976 compared with the previous year.

1977 Compared to 1976

The Company's net earnings for the year ended December 31, 1977 were $42.8 million ($4.06 per share) compared to $30.0 million ($3.02 per share) for 1976. The higher earnings were primarily a result of improvements in all segments of petroleum operations.

Consolidated sales and operating revenues were up 19% to $620.4 million as a result of greater sales in almost all areas of the Company's business.

Revenues from the sale of crude oil and natural gas increased 25%, reflecting both volume and price increases. The gross volume of crude oil produced increased 7% (10% in Canada), while the net volume of crude oil actually declined 5% (11% in Canada). The decline resulted from a change by the Saskatchewan government in its method of revenue collection on oil production from a surcharge to a royalty basis. Although the new method has the effect of reducing net crude oil production volumes, the change has not significantly affected the Company's production income per barrel produced. The net volume of natural gas produced increased about 10%. The Company has the ability to produce natural gas at a higher rate but is limited by the market.

Revenues from the sale of refined petroleum products increased an overall 21% including an increase from the sale of asphalts and heavy fuels of 12% and gasoline and all other products of 24%. Prices for both classes of products increased over the previous year's level as demand improved in 1977. The volume of light petroleum products was up 28% in Canada and 5% in the United States. The large increase in Canada was primarily a result of the acquisition of additional refining and marketing assets in November, 1976. Additionally, more service stations were converted to self-service units in both Canada and the United States during 1977. The volume of asphalts and heavy fuels sold in Canada was 33% higher in 1977 but, coupled with the

Market Information — 1977

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
6% Cumulative Redeemable Preferred Shares				
Series A				
1977 High	35	40	40¾	40½
Low	33½	34	40	39
1976 High	35	34½	33	34
Low	33⅛	33⅛	32½	32½
Series B				
1977 High	36	40	40	40½
Low	32¾	35	35	37½
1976 High	35	34	33¼	32⅝
Low	32	33	32¼	32⅛
Common Shares (per Toronto Exchange)				
1977 High	26⅜	29⅞	31⅞	28
Low	19⅛	24¼	25	21⅝
1976 High	22⅜	21½	20⅞	20½
Low	17⅝	19¾	16¼	16⅜
Dividends per Common Share				
1977		40		40
1976		40		40

decline in the United States, the total volume was down 4%. The increased volume in Canada can be attributed to additional capacity purchased in November, 1976 and a greater demand for asphalt in the Western provinces. The production of asphalt was reduced in the United States in late 1976 because of low demand for the product. The planned reduction was accomplished by altering crude processed to lighter feedstocks. The Company's dependence on the volatile asphalt market will be further reduced by the installation of coking facilities at its Cheyenne refinery, scheduled to be completed in late 1978.

Revenues from steel operations increased 7% to $74 million. Earnings before income taxes were down 31% to $3 million. Profit margins continued to be down because of low priced foreign and domestic steel and rising costs in all areas of operation.

Revenues from charcoal operations increased 3% to $37 million primarily because of price increases. The volume of briquets sold declined 8% resulting from raw material shortages which were caused by work stoppage at suppliers' facilities. Earnings before income taxes were up 14%.

Consolidated cost of sales and operating expenses increased 17% while sales increased 19%. The resulting improved profit margin primarily reflects more profitable refining and marketing operations in the United States. Costs, particularly crude oil costs, rose at a lower rate than sales prices. Demand for both light and heavy oil products was firmer in 1977 and the volume of less profitable heavy oil products was reduced as explained above. The improved profit margin was achieved in spite of a charge of $11.3 million relative to the United States Department of Energy entitlements program (see note 13 of the notes to the consolidated financial statements). Additionally, higher prices for crude oil and natural gas provided a better margin for the production of those products in Canada.

Selling, general and administrative expenses were 16% higher in 1977. This increase was caused by general cost increases throughout the operation and to an expanded level of business activity.

Interest expense increased 16% to $14 million which reflects a higher level of debt financing, both short-term and long-term, during most of 1977. Interest rates also began rising in 1977.

Other expenses were up $5 million (12%) and included increases in depreciation, depletion and amortization of almost $7 million (20%). Depreciation was 25% higher and resulted from greater investment in depreciable assets. Depletion was up 14% reflecting both greater expenditures in exploring for and developing petroleum reserves and a greater volume of production.

Income taxes increased 32% to $34 million as a result of greater earnings in 1977. The effective rate declined less than 2% to 44%.

Capital expenditures for 1977 of $92 million were $7 million less than in 1976. Exploration and development expenditures amounted to $66 million compared to $42 million in the previous year. Capital expenditures in 1977 were financed primarily from operations.

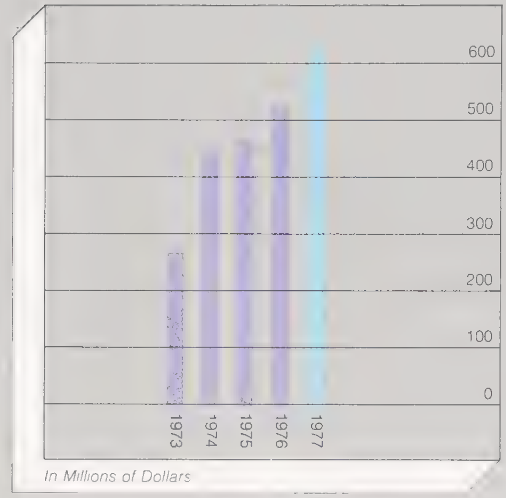
The ratio of net earnings from operations, expressed as a percent return on average total assets invested increased from 6.2% in 1976 to 7.6% in 1977.

1976 Compared to 1975

The Company's net earnings for the year ended December 31, 1976 were $30.0 million, or $3.02 per share, compared to $36.0 million, or $3.64 per share, for 1975. The decline in 1976 earnings was primarily due to increased cost of crude oil supplies to Husky's United States refineries that was not recovered in asphalt and heavy fuel oil markets.

Sales and operating revenues increased 15% to $522.4 million. Even though the volume of net crude oil and natural gas produced declined 15% and 6% respectively, production revenues increased by 8% due to higher prices.

Net Canadian natural gas production declined 8% while gross production remained almost unchanged, mainly due to increased provincial royalties in Alberta.



Gross Operating Revenues

Net crude oil and natural gas produced in the United States remained relatively unchanged from 1975 levels.

Net crude oil volumes produced declined 22% in Canada resulting primarily from a seven month production curtailment in the Lloydminster area and a change in the Saskatchewan government taxing structure, effective November 1, from a surcharge to a royalty basis. Production curtailment was necessary because competitive market conditions and Canadian export regulations restricted the market for Lloydminster heavy crude. In February, 1977 the Company announced plans to immediately remove all prorationing in the area in response to positive indications from the United States Department of Energy and the National Energy Board of Canada that current import and export regulatory problems would soon be resolved.

Additionally, the Company entered into a long term arrangement, effective July 1, 1977, to supply another Canadian refiner with 25,000 barrels of Lloydminster blended oil per day at prevailing market prices. This represented an increase of 17,000 barrels per day from volumes already being delivered.

Revenues from the sale of refined products increased 13% resulting from both volume and price increases. The volume of gasoline and other light products increased

8% in the United States and 29% in Canada. Higher volumes reflect the Company's conversion to self service stations, the institution of a "rack pricing" system in Canada and an increased availability of products for sale. Additionally, the Company acquired the refining and marketing assets of another Canadian oil company effective November 1, 1976, which increased sales volumes during the last two months.

Revenues from steel operations increased 12% to $69 million in the current year. However, earnings before income taxes were down 27%. The steel industry, in general, was in a slump.

Carbon operations had a record year in 1976. Sales increased 31%, including volume increases of 18% in charcoal briquets and 9% in activated carbon. Earnings before income taxes were up 58% to $5 million.

Costs and operating expenses increased 21% resulting in a lower profit margin for refined petroleum products and from steel operations. The profit margin declined for all refined petroleum products because market conditions had not allowed selling prices to rise as rapidly as crude oil and refinery operating costs. Lower profit margins were largely offset by higher sales volumes for light oil products such as gasoline. However, the market value of asphaltic products in the United States declined substantially from corresponding 1975 values, resulting in a reduction in the Company's earnings. The Company altered some of its refinery runs late in 1976 to reduce the yield of asphalt products.

Selling, general and administrative expenses increased 16% mainly from inflationary pressures, some expanded business activity and ever increasing governmental reporting requirements.

Interest expense — net of interest income was up 24% over 1975 as a result of increased borrowing, both short-term and long-term. Certain long-term interest rates were also higher in 1976.

Other expenses, which were up $6 million (19%) include depreciation, depletion and amortization increases of $2 million or 7%. Depreciation and amortization increased 11% because of greater investment in depreciable assets. Depletion increased only 3% because production volumes of crude oil and natural gas were down as explained above. The overall depletion rate actually increased 15% which reflects the higher costs of finding new reserves.

Other expenses also include minority interest in earnings of subsidiaries which was $0.5 million greater in 1976. The sale of the minority interest was consummated in July, 1975. The subsidiary earnings were greater in 1976 and the greater portion of the earnings are usually generated in the first half of the year.

Income taxes declined $6 million (18%) which corresponded to the decline in pretax earnings. The effective income tax rate remained fairly constant at 46%.

Capital expenditures were $99 million in 1976, an increase of $31 million over 1975. Approximately two-thirds of the capital expenditures were financed from operations, the balance from long-term debt.

The ratio of net earnings from operations, expressed as a percent return on average total assets invested declined to 6.2% from 8.7% in 1975. The decline reflects significant capital expenditures and a decline in profit margins in 1976.

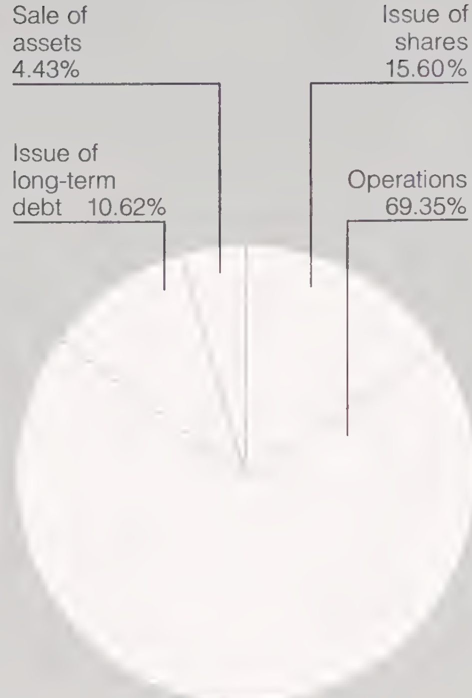
Capital Expenditures

	1977	1976	1975	1974	1973
	(thousands of dollars)				
Exploration	**$31,686**	21,388	19,664	16,989	10,679
Producing properties and pipeline facilities	**33,990**	21,004	31,248	21,081	18,037
Refining and Marketing	**18,789**	42,961	10,078	20,376	12,515
Other	**7,413**	14,054	7,141	3,435	5,505
	$91,878	99,407	68,131	61,881	46,736

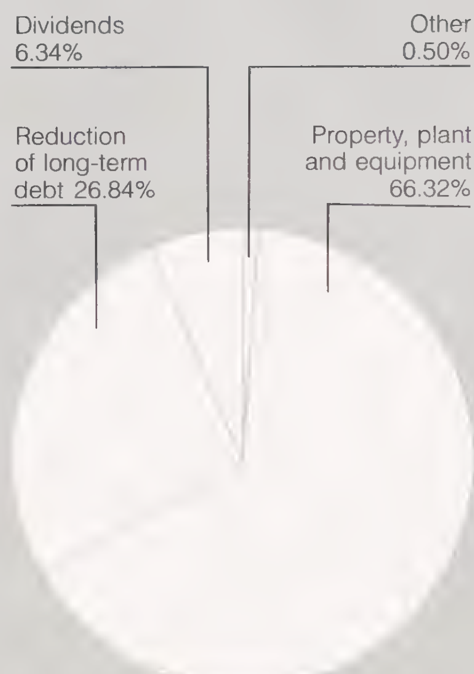
Business Segments

	1977	1976	1975	1974	1973
	Year ended December 31,				
Information by Industry Segment	(thousands of dollars)				
Sales					
Petroleum					
Crude oil and natural gas	$ 94,230	75,426	65,008	50,171	45,492
Asphalts and heavy fuels	73,903	65,928	74,102	66,455	36,586
Gasoline, light fuels and other	341,532	276,346	226,263	218,940	109,642
	509,665	417,700	365,373	335,566	191,720
Steel warehousing and processing	73,980	69,083	61,816	79,270	46,178
Charcoal	36,724	35,574	27,202	20,470	14,700
Consolidated total	$620,369	522,357	454,391	435,306	252,598
Operating profit					
Petroleum production, refining and marketing	$ 81,778	58,286	67,252	52,366	31,469
Steel warehousing and processing	3,918	5,101	6,326	7,851	5,101
Charcoal	5,839	5,267	3,809	1,498	(1,256)
	91,535	68,654	77,387	61,715	35,314
Interest expense	(13,595)	(11,693)	(9,413)	(8,561)	(8,249)
General corporate and minority interest	(1,162)	(1,173)	(456)	(583)	(491)
Consolidated earnings before income taxes	$ 76,778	55,788	67,518	52,571	26,574
Identifiable assets					
Petroleum production, refining and marketing	$534,873	469,521	382,644	347,432	283,685
Steel warehousing and processing	48,372	43,680	32,798	31,289	21,695
Charcoal	19,729	16,686	16,077	14,590	14,628
	602,974	529,887	431,519	393,311	320,008
General corporate	48	15	29	160	166
Consolidated total	$603,022	529,902	431,548	393,471	320,174
Information by Geographic Area					
Sales					
Canada	$209,658	147,312	113,586	104,970	70,235
United States	412,935	376,454	344,528	333,581	183,370
Other	—	—	—	—	—
Elimination of inter-segment sales	(2,224)	(1,409)	(3,723)	(3,245)	(1,007)
Consolidated total	$620,369	522,357	454,391	435,306	252,598
Operating profit					
Canada	$ 59,296	44,969	44,560	33,193	24,852
United States	33,920	24,517	33,104	28,726	10,473
Other	(1,681)	(832)	(277)	(204)	(11)
	91,535	68,654	77,387	61,715	35,314
Interest expense	(13,595)	(11,693)	(9,413)	(8,561)	(8,249)
General corporate and minority interest	(1,162)	(1,173)	(456)	(583)	(491)
Consolidated earnings before income taxes	$ 76,778	55,788	67,518	52,571	26,574
Identifiable assets					
Canada	$281,168	257,119	198,309	175,273	146,342
United States	310,429	264,736	229,555	216,629	172,057
Other	11,377	8,032	3,655	1,409	1,609
	602,974	529,887	431,519	393,311	320,008
General corporate	48	15	29	160	166
Consolidated total	$603,022	529,902	431,548	393,471	320,174

Source of Funds



Use of Funds



Consolidated Statements of Earnings

(stated in thousands of dollars)

	Year ended December 31, 1977	1976
Sales and operating revenues	$620,369	522,357
Costs and expenses		
Cost of sales and operating expenses (note 13)	450,781	385,598
Selling, general and administrative expenses	38,309	32,891
Interest (net of interest income of $868,000 in 1977 and $504,000 in 1976)	13,595	11,693
Miscellaneous — net	(1,177)	1,176
Depreciation and amortization	23,070	18,466
Depletion	18,393	16,204
Minority interest in earnings of consolidated subsidiary	620	541
	543,591	466,569
Earnings before income taxes	76,778	55,788
Income taxes (note 6)		
Current	22,360	18,136
Deferred	11,611	7,627
	33,971	25,763
Net earnings	$ 42,807	30,025
Earnings per common share		
Basic	$4.06	3.02
Fully diluted	$3.80	2.71

See accompanying notes to consolidated financial statements.

Consolidated Statements of Other Paid-in Capital and Retained Earnings

(stated in thousands of dollars)

	Year ended December 31, Other Paid-in Capital		Retained Earnings	
	1977	1976	1977	1976
Balance at beginning of year	$74,874	74,146	120,185	98,935
Add				
Credit (charge) arising from sinking fund redemption of preferred shares			127	(6)
Excess of consideration received over par value of common shares issued (note 7)	21,397	728		
Net earnings			42,807	30,025
	96,271	74,874	163,119	128,954
Deduct				
Cash dividends				
Preferred shares			493	523
Common shares (note 8)			8,287	7,827
Provision for redemption of preferred shares			419	419
	—	—	9,199	8,769
Balance at end of year	$96,271	74,874	153,920	120,185

See accompanying notes to consolidated financial statements.

Husky Oil Ltd.

Consolidated Balance Sheets

(stated in thousands of dollars)

Assets	December 31, 1977	1976
Current assets		
Cash	$ 11,873	10,887
Accounts and notes receivable	113,423	82,240
Inventories at lower of cost or net realizable value (note 3)	66,678	70,070
Prepaid expenses	765	907
Total current assets	192,739	164,104
Notes receivable and miscellaneous assets — at cost less amounts written off	7,631	6,852
Unrecovered costs — Santa Barbara project (note 4)	7,207	7,207
Property, plant and equipment — at cost (note 5)		
Oil and gas properties and equipment	345,927	291,933
Refining, manufacturing, marketing, transportation facilities and other assets	257,785	237,373
Accumulated depreciation and amortization	(139,456)	(120,171)
Accumulated depletion	(73,260)	(62,774)
	390,996	346,361
Unamortized debt issue costs	2,387	3,334
Other intangible assets — at cost less amounts written off	2,062	2,044
	$603,022	529,902

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	December 31, 1977	1976
Current liabilities		
Notes payable to banks	$ 24,300	27,250
Accounts payable and accrued liabilities	99,495	74,604
Income taxes payable	8,534	3,703
Long-term debt due within one year (note 5)	5,327	9,299
Total current liabilities	137,656	114,856
Long-term debt (note 5)	120,795	142,543
Deferred credits		
Deferred income taxes (note 6)	68,768	53,767
Other	1,322	1,128
	70,090	54,895
Minority interest in consolidated subsidiary	2,580	1,960
Shareholders' equity (note 7)		
Cumulative, redeemable preferred shares, par value $50; authorized 623,550 shares, issued 161,073 shares in 1977 and 168,861 shares in 1976	8,053	8,443
Common shares, par value $1; authorized 40,000,000 shares, issued 10,924,733 shares in 1977 and 9,803,113 shares in 1976	10,925	9,803
Undistributable capital surplus arising from purchase and redemption of preferred shares	2,732	2,343
Other paid-in capital	96,271	74,874
Retained earnings	153,920	120,185
	271,901	215,648
Commitments and contingencies (notes 11 and 12)		
	$603,022	529,902

Approved on behalf of the Board F.R. Matthews, Q.C., Director H.H. Millar, Director

Consolidated Statements of Changes in Financial Position

(stated in thousands of dollars)

	Year ended December 31, 1977	1976
Funds provided		
Net earnings	$ 42,807	30,025
Add items not requiring working capital		
Depreciation, depletion and amortization	41,463	34,670
Deferred income taxes	15,001	8,627
Minority interest	620	541
Other	240	90
Working capital provided by operations	100,131	73,953
Issue of common shares		
Conversion of debentures — net	20,944	380
Other	1,574	390
Sale of assets	6,393	1,790
Issue of long-term debt	15,333	66,179
	144,375	142,692
Funds used		
Additions to property, plant and equipment	91,878	99,407
Reduction in long-term debt	37,187	24,226
Retirement of preferred shares	292	425
Dividends		
Preferred shares	493	523
Common shares	8,287	7,827
Other	403	782
	138,540	133,190
Increase in working capital	$ 5,835	9,502
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	$ 986	5,377
Receivables	31,183	16,211
Inventories	(3,392)	12,966
Prepaid expenses	(142)	208
	28,635	34,762
Increase (decrease) in current liabilities		
Notes payable	(2,950)	17,750
Accounts payable and accrued liabilities	24,891	10,832
Income taxes payable	4,831	(6,421)
Long-term debt due within one year	(3,972)	3,099
	22,800	25,260
Increase in working capital	$ 5,835	9,502

See accompanying notes to consolidated financial statements.

1. Significant Accounting Policies

The consolidated financial statements include the accounts of all subsidiaries. The Company owns 80% of the shares of Husky Industries, Inc.; all other subsidiaries are wholly owned. United States subsidiaries are included at $1.00 U.S. = $1.00 Cdn. The Canadian dollar was quoted in New York City at $0.9142 U.S. = $1.00 Canadian at December 31, 1977 and $0.9916 U.S. = $1.00 Canadian at December 31, 1976.

The companies employ the "Full Cost" method of accounting and capitalize all North American exploration and reserve development costs. These costs are depleted on composite unit-of-production methods based upon proved developed reserves, as estimated by company engineers (see note 15 — future accounting change).

The cost of acquiring, exploring and developing oil and gas interests outside of North America, and all mining interests, have been capitalized pending the outcome of exploration in each area of interest. These costs are being amortized at an annual rate of 20% pending reserve development. Unamortized costs will be depleted by the method set forth above if sufficient reserves are developed. The unamortized costs of an abandoned area are charged against earnings at the time of abandonment. Unamortized costs at December 31, 1977 and 1976 amounted to $10,600,000 and $8,164,000, respectively (see note 15 — future accounting change).

Depreciation of certain producing lease equipment is provided by the unit-of-production method. Depreciation of substantially all other depreciable assets is provided by the straight-line method at rates based upon their estimated useful lives as follows:

Classification	Rate
Refining and marketing facilities including buildings and refinery equipment	2.5 - 20%
Transportation facilities and equipment	5.0 - 50%
Lease equipment (excluding equipment depreciated by unit-of-production method)	7.1 - 10%
Other depreciable assets	Various

Substantially all inventories, excluding materials and supplies which are stated at average cost, are valued at cost on a last-in, first-out basis.

Other intangible assets with limited economic lives are being amortized on a straight-line basis over their estimated lives.

The companies follow the tax allocation basis of accounting for all timing differences between net earnings and taxable income.

The retirement and pension plans of the Company and its subsidiaries are contributory and are available to substantially all permanent employees. The policy is to fund accrued pension costs as determined by actuarial studies. The unfunded past service costs are being funded and charged to operations over periods ranging from 10 to 20 years.

Basic earnings per common share are based on the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are computed as if all outstanding options, warrants or conversion privileges were exercised at the beginning of the year.

2. Acquisition

A subsidiary company purchased the Canadian refining and marketing assets of another oil company on November 1, 1976, for approximately $38,600,000.

The assets acquired are as follows (in thousands):

Current assets	$ 5,400
Land	11,000
Plant and equipment	22,200
	$38,600

Land and plant and equipment include a refinery at Prince George, British Columbia and marketing outlets in Western Canada. The current assets consist mainly of inventories.

The total consideration given approximated $38,190,000 in long-term loans (see note 5) and $410,000 in current funds.

3. Inventories

The major categories of inventories at December 31, are summarized below:

	1977	1976
	(in thousands)	
Crude oil and refined oil products	**$33,452**	38,084
Steel and steel products	**18,316**	16,510
Charcoal briquets and raw materials	**8,213**	7,311
	59,981	61,905
Materials and supplies	**6,697**	8,165
	$66,678	70,070

If the first-in, first-out method had been used to value inventories, the amounts would have been approximately $30,407,000 and $22,709,000 higher than reported at December 31, 1977 and 1976.

4. Unrecovered Costs — Santa Barbara Project

Unrecovered costs of the Santa Barbara project of $7,207,000 represent the unamortized cost of oil and gas leases off the coast of California acquired in 1968 which expired in 1973. In February, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on the outer continental shelf and imposed an unlimited liability regardless of fault for damage caused by oil escaping. The Secretary also suspended drilling on these leases. These actions made it economically and practically impossible to continue further exploration. As a result, exploratory operations on the leases were discontinued and several companies including Husky Oil Company filed suit against the United States of America requesting repayment of acquisition and exploratory costs incurred or compensation for the value of the leases. The trial was completed in 1972 and a decision is still pending. In the opinion of counsel for the companies, it is impossible to predict the outcome of this litigation at this time. In the year the suit is settled or dismissed it is contemplated that under the full cost method any costs which are not recovered by the suit will be added to depletable costs. Had total costs been taken into depletable costs in 1977 or 1976, the effect on net earnings would not have been material.

5. Long-term Debt

Long-term debt at December 31 consisted of:

	1977	1976
	(in thousands)	
Husky Oil Ltd. and Canadian Subsidiaries (stated in Cdn. $)		
Secured		
Sinking fund debentures		
6% Series A, due in 1984	$ 9,795	10,455
6¾% Series B, due in 1987	15,212	15,934
8½% Series C, due in 1991	12,975	13,654
Notes payable — Other	369	5,460
Unsecured		
Notes payable		
9% — $920,000 plus interest due quarterly to May 1, 1978, interest only due quarterly to February 1, 1982, balance due May 1, 1982 — Payable In U.S. $21,133,000 in 1977 and $23,692,000 in 1976 (see note 2)	19,553	23,000
¾% over prime — $500,000 plus interest due quarterly beginning October 1, 1978, balance due July 1, 1983 (see note 2)	10,000	10,000
1% over prime — interest only due semi-annually beginning May 1, 1977, balance due November 1, 1978 (see note 2) Refinanced January 1977 — ¼% over prime — equal principal installments due monthly over 5 years ending December, 1981	—	5,190
	67,904	83,693
Husky Oil Company and United States Subsidiaries (stated in U.S. $)		
6¼% convertible subordinated debentures due in 1997 (convertible into shares of parent company) with sinking fund payments from 1983 to 1996	—	22,095
Secured		
Notes payable		
6¾% — $47,000 including interest due monthly, balance due April 1991	4,884	5,105
Other	4,702	5,924
Long-term lease obligations	687	972
Unsecured		
Notes payable		
11¼% — $1,923,000 due annually beginning February 1, 1979, balance due February 1, 1991	25,000	25,000
9% — interest only due quarterly beginning June 1, 1977, $750,000 plus interest due quarterly beginning June 1, 1979, balance due March 1, 1984	15,000	—
7% — 8½% — balance due 1983 to 1991	7,945	9,053
	58,218	68,149
Total long-term debt	126,122	151,842
Less amount due within one year	5,327	9,299
	$120,795	142,543

Interest on long-term debt was $11,928,000 and $9,739,000 in 1977 and 1976, respectively. Assets of subsidiaries with an aggregate cost of approximately $49,600,000 and $79,600,000 on December 31, 1977 and 1976, respectively, are specifically pledged as collateral. Additionally, the common shares of Husky Oil Operations Ltd. and Husky Oil Company, wholly owned subsidiaries, have been pledged by the Company.

Aggregate annual maturities of long-term debt for the five years subsequent to December 31, 1977 are: 1978 — $5,327,000; 1979 — $9,756,000; 1980 — $10,346,000; 1981 — $10,669,000; 1982 — $28,174,000.

6. Income Taxes

The income taxes charged to earnings for the years ended December 31, 1977 and 1976 are made up of the following components:

	Canada Federal and Provincial	U.S. Federal and State	Total
		(in thousands)	
		1977	
Current taxes	$18,060	4,300	22,360
Deferred taxes			
Current	—	(3,390)	(3,390)
Non-current	7,111	7,890	15,001
	$25,171	8,800	33,971
		1976	
Current taxes	$14,445	3,691	18,136
Deferred taxes			
Current	—	(1,000)	(1,000)
Non-current	3,480	5,147	8,627
	$17,925	7,838	25,763

The provision for deferred income taxes consisted of the following timing differences:

	1977	1976
	(in thousands)	
Lease acquisition, drilling and exploration costs (net of depletion)	$ 9,998	5,016
Tax and book depreciation	7,167	3,579
Accrual for probable loss (see note 13)	(3,390)	(1,000)
Other	(2,164)	32
	$11,611	7,627

Total income taxes amounted to $33,971,000 in 1977 and $25,763,000 in 1976, an effective rate of approximately 44% in 1977 and 46% in 1976. These totals are less than the amount of $36,086,000 in 1977 and $26,778,000 in 1976 computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

	1977 Amount (in thousands)	1977 % of Pretax Income	1976 Amount (in thousands)	1976 % of Pretax Income
Computed "expected" tax expense	$36,086	47	$26,778	48
Increase (decrease) in taxes resulting from:				
Royalties, lease rentals and mineral taxes payable to the Crown, net of Provincial rebates	15,564	20	7,565	13
Resource allowance on Canadian production income	(11,673)	(15)	(7,413)	(13)
Tax depletion on Canadian production income	(2,223)	(3)	(1,095)	(2)
Miscellaneous	(3,783)	(5)	(72)	—
	$33,971	44	$25,763	46

Income tax expense has been reduced by investment tax credits in the amount of $1,927,000 in 1977 and $1,900,000 in 1976.

7. Capital Shares

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share.

At December 31, preferred shares were issued and outstanding as follows:

	1977	1976
Series A — 6%	42,162	44,774
Series B — 6%	118,911	124,087
	161,073	168,861

Common shares were issued during the years ended December 31, 1977 and 1976 as follows:

Number Common Shares	Consideration	Credited to Share Capital (in thousands)	Credited to Other Paid-in Capital (in thousands)
	1977		
520	Cash (issued on exercise of stock options and stock purchase warrants)	$ 1	6
18,800	Stock bonus	19	355
1,102,300	Conversion of convertible debentures — net	1,102	21,036
1,121,620		$1,122	21,397
	1976		
3,480	Cash (issued on exercise of stock options and stock purchase warrants)	$ 4	46
19,200	Stock bonus	19	321
19,000	Conversion of convertible debentures — net	19	361
41,680		$ 42	728

Common shares have been reserved for issue as follows:

1977	1976	
298,960	298,980	Shares for Series E stock purchase warrants at exercise prices escalating from $18.00 to $21.00 per share expiring August 15, 1981.
19,050	19,550	Shares under a share option plan for officers and employees at prices ranging from $6.77 to $12.94 per share and which generally expire in the year following termination of employment.
—	1,104,750	Shares for conversion of 6¼% convertible subordinated debentures at $20.00 per share until 1997.
153,400	172,200	Shares under a stock bonus plan for key employees until December 31, 1989.
471,410	1,595,480	

8. Dividends

The Company is subject to the guidelines and regulations of the Anti-Inflation Act (Canada) as they apply to dividends. Accordingly, the Company's ability to increase dividends is restricted. The Act is scheduled to expire on October 13, 1978.

9. Pension and Retirement Plans

Total pension expense was $2,855,000 and $2,464,000 for 1977 and 1976, respectively, which includes amortization of the past service costs. Based on actuarial reports, the assets of the plans exceed the total actuarially computed value of vested benefits for employees. The unfunded past service costs amounted to $2,811,000 and $2,551,000 at December 31, 1977 and 1976, respectively.

10. Officers and Directors Remuneration

The Company had 12 directors and 18 officers, in 1977 and, during 1976, had 11 directors and 17 officers, 2 of whom served in both capacities in both years. Remuneration was as follows:

Paid by	Directors 1977	Directors 1976	Officers 1977	Officers 1976
	(in thousands)			
Husky Oil Ltd.	$63	46		
Husky Oil Operations Ltd.			307	182
Husky Oil Company	36	36	1,120	980
Husky Oil NPR Operations, Inc.			22	80
	$99	82	1,449	1,242

11. Lease Commitments

The companies conduct a minor portion of their operations with leased facilities which include service stations, refinery equipment, transportation, office and other miscellaneous equipment. Contingent rentals are paid to lessors of certain service stations and are based upon sales volumes in excess of stipulated minimums. The terms of the numerous leases vary significantly. Some leases have renewal options and others have purchase options.

The following is a schedule of future minimum rental payments required by year under operating leases that have noncancellable lease terms in excess of one year at December 31, 1977.

Year ended December 31,	Amount
	(in thousands)
1978	$ 4,507
1979	3,976
1980	3,301
1981	2,499
1982	2,306
Later years	14,195
Total minimum payments	$30,784

The following schedule shows the composition of total rent expense for all operating leases.

	Year ended December 31, 1977	1976
	(in thousands)	
Minimum rents	$8,317	7,323
Contingent rents	390	652
Sublease rents	(2,810)	(2,700)
	$5,897	5,275

In November 1976, the Financial Accounting Standards Board in the United States issued an accounting standard for leases. The new standard is generally effective for leases entered into after January 1, 1977, and is to be applied retroactively no later than fiscal years beginning after December 31, 1980. Among other things, the standard sets forth new criteria for determining whether a lease is a capital lease or an operating lease as it pertains to the lessee's records. (For a capital lease, the asset being leased would be accounted for in the same manner as a purchased asset and the lease obligation would be recorded as a liability. For an operating lease, rental payments would generally be charged to expense as they are incurred.)

The companies have elected not to apply the new standard retroactively at the present time. Leases capitalized under the old accounting principles are not material (see note 5). There have not been any significant new leases incurred since January 1, 1977.

The following schedule reflects the changes in assets, liabilities, and net earnings as if the new standard had been applied to the companies' leases at December 31, 1977 and 1976.

	December 31, 1977	1976
	(in thousands)	
Property, plant and equipment		
Service stations	$12,496	12,531
Refineries	8,000	8,000
Other	993	874
	21,489	21,405
Accumulated depreciation	9,873	8,807
	11,616	12,598
Other assets (decrease)	(836)	(816)
	$10,780	11,782
Lease obligations		
Due within one year	$ 942	820
Long-term	14,046	14,971
	14,988	15,791
Other liabilities (decrease)	(2,145)	(2,053)
	$12,843	13,738
Decrease in net earnings (for the year ended)	$ (107)	(204)
Earnings per share	$ (0.01)	(0.02)

12. Commitments and Contingencies

The Company and its subsidiaries are defendants in various lawsuits at December 31, 1977. While it is impossible to estimate the ultimate liability with respect to pending litigation, management believes there will be no material adverse effect on the financial position of the companies.

A subsidiary is subject to regulation by various United States governmental agencies, including the Department of Energy (DOE). The DOE has completed an audit of the Company through 1974 but the results are still not known.

13. United States Entitlements Program

The entitlements program, now administered by the United States Department of Energy (DOE), was instituted in 1974 in an effort to ameliorate inequities arising out of the Federal government's multi-tier crude oil price program. The Company obtained exception from the entitlements program through September 1977 conditioned on maintenance of a profit margin no greater than the profit margin realized by the Company's refining and marketing operations in certain base years. Based on the terms of the exception, the Company has provided entitlement costs of $11,282,000 in the accompanying financial statements. The Company has filed a suit against DOE seeking to enjoin enforcement of the restrictive profit margin limitation. If the Company prevails in the litigation, the Company's 1977 provision for entitlement costs would be reduced or eliminated. DOE has recently issued a proposed decision to decrease the margin further, which, if it were to become effective, could increase the Company's costs by an additional $2,200,000 for 1977. After provision for income taxes, net earnings would be affected by approximately one-half of any change to the entitlements provision made for 1977. It is not possible to predict the ultimate outcome of the matter at this time.

14. Business Segments

The following is an analysis of certain consolidated financial information by industry lines and geographic areas.

Information by Different Industries	1977 Sales	1977 Operating Profit	1977 Identifiable Assets	1976 Sales	1976 Operating Profit	1976 Identifiable Assets
	(thousands of dollars)					
Petroleum	$509,665	81,778	534,873	417,700	58,286	469,521
Steel	73,980	3,918	48,372	69,083	5,101	43,680
Charcoal	36,724	5,839	19,729	35,574	5,267	16,686
Combined	620,369	91,535	602,974	522,357	68,654	529,887
General corporate		(542)	48		(632)	15
Interest (net)		(13,595)			(11,693)	
Minority interest		(620)			(541)	
Consolidated	$620,369	76,778	603,022	522,357	55,788	529,902
Information by Different Geographic Areas						
Canada	$209,658	59,296	281,168	147,312	44,969	257,119
United States	412,935	33,920	310,429	376,454	24,517	264,736
Other		(1,681)	11,377		(832)	8,032
Adjustments & eliminations	(2,224)			(1,409)		
Combined	620,369	91,535	602,974	522,357	68,654	529,887
General corporate		(542)	48		(632)	15
Interest (net)		(13,595)			(11,693)	
Minority interest		(620)			(541)	
Consolidated	$620,369	76,778	603,022	522,357	55,788	529,902

The Companies operate principally in three industries, petroleum, steel and charcoal. Petroleum operations include the exploration for and the production of crude oil and natural gas, the refining of crude oil, the wholesale and retail marketing of refined petroleum products, and the pipeline transmission of crude oil, natural gas and finished products. Steel operations include warehousing, processing and fabrication, and distribution of steel and steel products. Charcoal operations include the production and marketing of barbecue briquets, activated carbon and other charcoal products.

Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items has been added or deducted: general corporate expenses, interest expense, minority interest and income taxes. Depreciation, depletion and amortization for petroleum, steel and charcoal, respectively, was $38,779,000, $1,594,000 and $1,090,000 for 1977 and $32,190,000, $1,431,000 and $1,049,000 for 1976. Capital expenditures for the three industries were $87,780,000, $1,450,000 and $2,648,000 for 1977 and $86,921,000, $10,538,000 and $1,948,000 for 1976.

Identifiable assets by industry or geographic areas are those assets that are used in the companies' operations in each industry or area. Corporate assets are principally cash. Transfers between geographic areas are based upon costs.

15. Future Accounting Change

On December 5, 1977, the Financial Accounting Standards Board in the United States issued a Financial Accounting Standard which, among other things, was concerned with the method of reporting income by oil and gas producing companies. The standard would require companies to use the "Successful Efforts" rather than the "Full Cost" method of accounting for oil and gas exploration and production operations. The provisions of the new standard are to be retroactively applied in fiscal years beginning after December 15, 1978.

The United States Securities and Exchange Commission and the Department of Energy are both holding public hearings in 1978 concerning questions that have been raised relative to the new standard's effect on competition in the oil industry. It has been argued that the standard would make it impossible for small oil companies to compete with larger companies.

If the Company adopts the new standard, it will be necessary to restate current and previously reported net earnings and shareholders' equity. The Company estimates that net earnings and shareholders' equity would have been reduced approximately as follows:

	1977	1976
Net earnings (for the year ended)	2-6%	13-17%
Shareholders' equity (at December 31)	11-15%	13-17%

The Company is still in the process of refining the conversion calculation. It is possible that the ultimate effect may not be within the ranges given above.

Although adoption of the new standard is not expected to have a significant effect on the Company's dividend policy, any wide fluctuation in reported earnings, which may result from the immediate expensing of substantial exploration efforts that prove to be unsuccessful, could impair the Company's ability to raise additional capital.

16. Replacement Cost Data (Unaudited)

Inflation has had a significant impact on the Company's operating expenses and its investment in property, plant and equipment. A much greater capital investment has generally been required to replace property, plant and equipment having equivalent productive capacity than was necessary to acquire such assets originally.

Data showing the estimated replacement cost of the Company's property (excluding mineral resource assets which amount to approximately 57% of the total property) and inventory together with the related effects on depreciation, depletion and amortization expense and cost of sales and operating expenses is presented in the Company's 1977 Form 10-K which will be filed with the Securities and Exchange Commission of the United States of America, Washington, D.C.

17. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1977 and 1976 is as follows:

	Three months ended,			
	March 31	June 30	Sept. 30	Dec. 31
1977				
Net sales and operating revenues	$125,182	161,728	180,635	152,824
Gross profit	35,212	47,160	47,278	39,938
Net earnings	6,747	12,904	13,049	10,107
Net earnings per common share				
Basic	0.68	1.28	1.18	0.91
Fully diluted	0.61	1.15	1.15	0.89
1976				
Net sales and operating revenues	$105,874	143,963	148,004	124,516
Gross profit	28,981	37,484	38,639	31,655
Net earnings	5,008	8,732	10,219	6,066
Net earnings per common share				
Basic	0.50	0.88	1.03	0.61
Fully diluted	0.46	0.79	0.91	0.55

The Company's business is fairly seasonal with sales volumes much higher during the summer months.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Husky Oil Ltd. as at December 31, 1977 and 1976 and the consolidated statements of earnings, other paid-in capital and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The accompanying balance sheets as at December 31, 1977 and 1976 include unrecovered costs of the Santa Barbara project. As discussed in note 4, the Company has brought suit against the United States of America to recover these costs and other amounts. In the opinion of counsel for the Company, it is impossible to predict the outcome of the litigation at this time.

The Company is currently involved in litigation seeking relief from the restrictive profit margin limitation imposed by the United States of America, Department of Energy, entitlements program, as discussed in note 13. It is not possible to predict the ultimate outcome of the matter at this time.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of matters referred to in the preceding paragraphs, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Canada
January 30, 1978

Financial and Operating Summary

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Financial (thousands of dollars except per share figures)										
Sales and operating revenues	$620,369	522,357	454,391	435,306	252,598	204,324	184,185	176,226	163,493	153,663
Equity in earnings of Empire State Oil Company	—	—	—	—	—	—	1,494	758	—	—
	620,369	522,357	454,391	435,306	252,598	204,324	185,679	176,984	163,493	153,663
Cost of sales and operating expenses	450,781	385,598	318,619	321,694	173,215	143,456	130,746	128,821	117,231	108,291
Selling, general and administrative expenses	38,309	32,891	28,249	25,871	20,606	18,107	15,937	14,949	14,443	14,819
Interest (net of interest income)	13,595	11,693	9,413	8,561	8,249	8,637	9,887	9,261	8,264	6,981
Other (including depreciation, depletion and amortization)	40,906	36,387	30,592	26,609	23,954	20,651	18,122	16,836	15,690	15,276
	543,591	466,569	386,873	382,735	226,024	190,851	174,692	169,867	155,628	145,367
Earnings before income taxes and extraordinary items	76,778	55,788	67,518	52,571	26,574	13,473	10,987	7,117	7,865	8,296
Income taxes										
Current	22,360	18,136	21,550	17,592	1,914	(2,686)	72	143	—	—
Deferred	11,611	7,627	9,950	5,500	8,339	7,042	2,469	649	1,615	3,594
	33,971	25,763	31,500	23,092	10,253	4,356	2,541	792	1,615	3,594
Earnings before extraordinary items	42,807	30,025	36,018	29,479	16,321	9,117	8,446	6,325	6,250	4,702
Extraordinary items — net	—	—	—	—	—	1,338	—	(1,033)	—	1,977
Net earnings	42,807	30,025	36,018	29,479	16,321	10,455	8,446	5,292	6,250	6,679
Dividends on preferred shares	493	523	559	587	612	644	665	694	716	740
Earnings for common shares	$ 42,314	29,502	35,459	28,892	15,709	9,811	7,781	4,598	5,534	5,939
Common shares outstanding (weighted average in thousands)	10,417	9,784	9,730	9,704	9,579	9,536	9,416	9,411	9,405	8,723
Earnings per common share										
From operations	$ 4.06	3.02	3.64	2.98	1.64	.89	.83	.60	.59	.45
Extraordinary items — net	—	—	—	—	—	.14	—	(.11)	—	23
	$ 4.06	3.02	3.64	2.98	1.64	1.03	.83	.49	.59	68
Dividends per common share	$ .80	.80	.65	.40	.15	.15	.15	.15	.30	30
Preferred shares outstanding at par value	8,053	8,443	9,081	9,582	9,991	10,388	11,826	12,221	12,620	12,392
Working capital provided by operations	100,131	73,953	78,016	62,368	49,155	33,820	29,282	23,288	24,244	24,165
Capital expenditures	91,878	99,407	68,131	61,881	46,736	35,044	34,656	47,209	39,535	36,103
Working capital	55,083	49,248	39,746	33,972	36,359	29,232	15,999	16,750	15,388	22,901
Long-term debt	120,795	142,543	100,473	100,599	101,220	98,415	111,144	109,052	100,371	91,719
Operations										
Production — Daily Average										
Net crude oil and gas liquids — bbls	35,287	37,301	43,949	43,015	43,984	41,482	38,345	33,265	31,663	30,742
Net natural gas — mcf	61,061	55,618	58,994	65,460	73,868	76,539	67,271	49,293	46,236	47,571
Refining and marketing — Daily Average Barrels										
Refinery runs	59,521	55,719	56,220	59,116	50,828	48,624	50,185	50,044	47,893	45,802
Refined product sales	68,638	64,895	60,541	63,958	58,662	55,330	53,285	56,961	52,730	48,662

Corporate Information

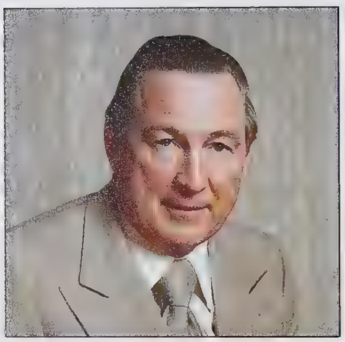
Board of Directors

Glenn E. Nielson
Cody, Wyoming
Chairman of the Board
Husky Oil Ltd.
Chairman of the Board
Gate City Steel

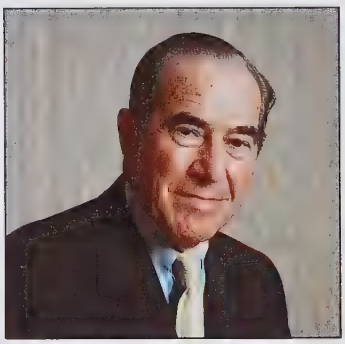
James E. Nielson
Cody, Wyoming
President
Husky Oil Ltd.

J. Waddy Bullion
Dallas, Texas
Partner, Law Firm of
Thompson Knight
Simmons and Bullion

Ronald N. Dalby
Edmonton, Alberta
Management and
Engineering Consultant



William D. Dickie, Q.C.
Calgary, Alberta
Energy Consultant



George S. Eccles
Salt Lake City, Utah
Chairman of the Board
First Security
Corporation and Chairman
of First Security Bank of Utah

David M. Kennedy
Salt Lake City, Utah
Retired Banker

F. R. Matthews, Q.C.*
Calgary, Alberta
Partner, Law Firm of
MacKimmie, Matthews

J. K. McCausland
Willowdale, Ontario
Retired Investment Dealer

H. H. Millar*
Edmonton, Alberta
President and a Director
of Western Construction and
Lumber Co. Ltd.

William F. Mitchell
Toronto, Ontario
Chairman, Mitchell
Plummer and Co.
Financial Consultants

Ward C. Pitfield*
Toronto, Ontario
President and a Director
of Pitfield, MacKay,
Ross & Company, Limited

**members of the audit committee*

Officers

Glenn E. Nielson
Chairman of the Board

James E. Nielson
President

R. M. McManis
Executive Vice-President

R. Strother
Senior Vice-President

J. M. Wilkinson
Senior Vice-President

J. A. Williams
Senior Vice-President

E. R. Blasken
Vice-President

W. G. Brantz
Vice-President

G. S. Dibble, Jr.
Vice-President

M. D. Ensign
Vice-President

C. W. Fink
Vice-President

J. G. McKenzie
Vice-President

R. Y. Pogontcheff
Vice-President

J. V. Sheffield
Vice-President

D. H. Flora
Secretary
General Counsel

L. E. Saunders
Vice-President, Treasurer
and Controller

J. H. Manning
Executive Vice-President
Husky Oil (International), Inc.

S. L. Cate
Chairman of the Board
Husky Industries, Inc.

J. W. Rimmer
President
Gate City Steel

J. P. Keeter
President
Husky Industries, Inc.

J. W. Dowden
President
Husky Oil NPR Operations, Inc.

M. F. Westfall
Executive Vice-President
Husky Oil NPR Operations, Inc.

Husky Oil

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T2P 1Y1

United States Offices
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82414

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80222

5100 Westheimer Road
Houston, Texas
77027

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Washington, D.C.

Overseas
Manila, Luzon
Philippines

Karachi, Pakistan

Division Production Offices
Lloydminster, Saskatchewan
Santa Maria, California

Refineries
Cheyenne, Wyoming
Cody, Wyoming
Lloydminster, Alberta
Prince George,
British Columbia
Salt Lake City, Utah

Division Marketing Offices
Denver, Colorado
Billings, Montana
Salt Lake City, Utah
Calgary, Alberta
Winnipeg, Manitoba
Spokane, Washington
Vancouver, British Columbia

Husky Industries, Inc.
62 Perimeter Center East
Atlanta, Georgia
30346

Sales Offices:
Minneapolis, Minnesota
Ocala, Florida
Scotia, New York

Plant Locations:
Branson, Missouri
Cookeville, Tennessee
Dickinson, North Dakota
Isanti, Minnesota
Ocala, Florida
Romeo, Florida
Stamford, New York
Waupaca, Wisconsin

Gate City Steel Corporation
P.O. Box 14022
Omaha, Nebraska
68114

District Offices:
Albuquerque, New Mexico
Boise, Idaho
Chicago, Illinois
Davenport, Iowa
Denver, Colorado
Gary, Indiana
Idaho Falls, Idaho
Omaha, Nebraska
Pocatello, Idaho
St. Paul, Minnesota
Salt Lake City, Utah
Sterling, Illinois
Tulsa, Oklahoma

Husky Oil NPR Operations, Inc.
Houston, Texas
Anchorage, Alaska

Transfer Agents and Registrars

Common Shares.
Montreal Trust Company
Offices at Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg

The Chase Manhattan Bank
New York City

Preferred Shares.
Montreal Trust Company
At above offices

Auditors
Peat, Marwick, Mitchell & Co
Calgary, Canada

Annual Meeting

The Annual General Meeting of Shareholders of Husky Oil Ltd will be held in the Bayshore Inn, Vancouver, British Columbia on April 12, 1978. Formal notice of this meeting and proxy materials are enclosed

Form 10-K

Copies of the Company's 1977 annual report on Form 10-K filed with the United States Securities and Exchange Commission, including financial statements and exhibits, will be provided without charge to shareholders who send written requests to the Office of the Secretary of the Company at Husky Oil Ltd., 815-6th Street S.W., Calgary, Alberta, Canada T2P 1Y1.

Printed in Canada

Husky Oil 1977 Annual Report

oil business. In addition, Husky has Gate City Steel and Husky Industries, which make a substantial contribution to our corporate sales and earnings. Approximately 80 per cent of Husky's corporate earnings come from activities other than Lloydminster-type heavy oil production.

The heavy oil industry in Canada is very healthy and shows every sign of remaining that way. With light oil production in Canada declining, Husky believes additional development of heavy oil offers the only near term alternative to offset energy shortages.

North America has definitely entered a period of prolonged domestic crude oil deficiency, although pockets of local oversupply will occur from time to time. The heavy oil resources of Lloydminster are a potentially significant source of Canada's future energy supply. The Canadian federal government has indicated that for the next five years heavy oil production in excess of Canada's needs will be licensed for export.

Both Canada and the United States have recently become much more sensitive to each other's energy problems and are more willing to help one another to their mutual benefit. Husky believes there will be no significant change in the historical distribution pattern of Canadian heavy crude to northern tier U.S. refineries.

Recent Canadian heavy oil marketing and production problems have now been resolved. Government actions during the first six months of this year in both Canada and the United States have resulted in increased exports from Canada. A long term contract with a major oil company in Canada to purchase Lloydminster blend in addition to the blend that is processed in Husky's own Lloydminster plant, make the prospects look good for continued markets for the major portion of the region's production.

We see continuing markets for Husky's Canadian heavy crude oil production and it will continue to be a significant contributor. However, too much emphasis has been placed on Husky's heavy oil activities and not enough on the growth potential of our other operations. The prospects are excellent for Husky's continued growth and advancement.

Sincerely,

JAMES E. NIELSON,
President

August 11, 1977

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HUSKY OIL LTD.

AR28

Husky

Quarterly Report To Shareholders

Six Months Ended June 30, 1977

Financial

Husky's net earnings for the first six months of 1977 improved to a record high of $19.7 million, or $1.96 per share, from $13.7 million, or $1.38 per share, for the similar period last year. Fully diluted earnings were $1.90 per share this year compared to $1.24 per share for the first six months of 1976. The net earnings are after a total provision for cash and deferred income taxes of $15.9 million in 1977 and $13.2 million in 1976.

Sales and operating revenues were $286.9 million, up 15 per cent from $249.8 million for the first six months last year. Cash flow from operations improved to $49.1 million from $34.2 million for the comparable period in 1976, an increase of 44 per cent.

The increase in earnings reflects general improvement in all aspects of Husky's activities with the exception of steel operations earnings, which were down from the first half of 1976.

Exploration

During the second quarter, Husky entered into a $36 million exploration program with Pan Eastern Exploration Company, a subsidiary of Panhandle Eastern Pipeline Company, to explore for natural gas in the Big Horn, Wind River, and Green River Basins of Wyoming and northern Colorado. Husky will operate the joint venture, furnish the exploration and operating staffs and contribute approximately 220,000 acres of land as well as $7 million in funds. Pan Eastern will contribute $18 million in funds. The cost of development of any discoveries will be shared equally and will be in addition to the commitment for exploration.

Husky will have a 60 per cent and Pan Eastern a 40 per cent interest in the co-venture properties. Pan Eastern has the right to purchase all natural gas with the exception of some equity gas Husky can reserve for use in its Rocky Mountain refineries. Husky has the right to purchase all crude oil and natural gas liquids production.

Husky is currently drilling a second well in the Green River Basin in the joint venture. The first well was drilled and abandoned. Two additional wells, one of which is scheduled as a deep Nugget test with a target depth of approximately 18,300 feet, are expected to begin drilling in the Green River Basin before the end of August.

An offset to the 1976 Cody oil field discovery well near Husky's refinery at Cody, Wyoming, has been drilled and completed in the Phosphoria formation. Early production rates in excess of 250 barrels of oil per day have been realized. Another well is presently drilling approximately one mile north of the discovery well. The company plans to initiate a significant program to develop the reservoir if the third well also establishes production.

HUSKY OIL LTD.
and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

	Six months ended June 30, 1977	Six months ended June 30, 1976	Increase (Decrease) %
Sales and operating revenues	$286,910,000	249,837,000	15
Costs and expenses			
Cost of sales and operating expenses	204,538,000	183,372,000	12
Selling, general and administrative expenses	19,552,000	16,777,000	17
Interest (net of interest income of $263,000 in 1977 and $247,000 in 1976)	7,415,000	5,585,000	33
Miscellaneous — net	(413,000)	(459,000)	10
Depreciation and amortization	11,268,000	8,802,000	28
Depletion	8,585,000	8,453,000	2
Minority interest in earnings of consolidated subsidiary	412,000	405,000	2
	251,357,000	222,935,000	13
Earnings before income taxes	35,553,000	26,902,000	32
Income taxes			
Current	7,495,000	10,367,000	(28)
Deferred	8,407,000	2,795,000	—
	15,902,000	13,162,000	21
Net earnings	$ 19,651,000	13,740,000	43
Earnings per common share			
Basic	$1.96	1.38	42
Fully diluted	$1.90	1.24	53
OPERATING SUMMARY (Daily Averages)			
Gross crude oil and gas liquids — bbls.	46,757	47,112	(1)
Net crude oil and gas liquids — bbls.	33,707	40,007	(16)
Gross natural gas — mcf	84,508	80,162	5
Net natural gas — mcf	64,530	60,476	7
Refining throughput — bbls.	56,006	53,866	4
Refined product sales — bbls.	60,988	59,595	2

Note: Figures are unaudited and accounts of U.S. subsidiaries are included at $1 U.S. = $1 Canadian.

HUSKY OIL LTD.
and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Six months ended June 30, 1977	1976
Funds provided by		
Operations	$ 49,107,000	34,211,000
Long-term debt	15,546,000	33,675,000
Debenture conversion	20,905,000	—
Other	2,430,000	835,000
	87,988,000	68,721,000
Funds used to		
Acquire property, plant and equipment	43,652,000	37,159,000
Retire long-term debt	30,700,000	18,449,000
Pay dividends	4,171,000	4,178,000
Other	979,000	(792,000)
	79,502,000	58,994,000
Funds added to working capital	$ 8,486,000	9,727,000

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 1977	1976
Current assets	$186,984,000	152,432,000
Properties, plant and equipment — net	369,249,000	301,877,000
Other assets	19,465,000	18,352,000
Total assets	$575,698,000	472,661,000
Current liabilities	$129,250,000	102,959,000
Long-term debt	127,443,000	115,757,000
Deferred credits, etc.	66,250,000	50,828,000
Shareholders' equity	252,755,000	203,117,000
Total liabilities and shareholders' equity	$575,698,000	472,661,000

See footnote to Consolidated Statements of Earnings

At Fuller Reservoir in the Wind River Basin of Wyoming, a well was drilled and completed approximately one-half mile from a 1976 deep test which had encountered multiple gas pays from 4,000 to 10,000 feet. The offset well, completed in a Fort Union sand, has been production tested at a rate of 4 million cubic feet per day against a back-pressure of 800 pounds per square inch. Additional drilling is scheduled in Fuller Reservoir in 1977.

In the southern sector of Husky's 28,000 acre tract at Quirk Creek in Alberta, a deep test, which was cased to a depth of 15,400 feet, showed indications of natural gas in the Mississippian and Devonian formations. A service rig has recently been moved onto the site to test both formations.

An exploratory well, Cadlao No. 1, has begun drilling near the Calamian group of islands on Contract Block 310 on the northwest Palawan shelf about 38 miles offshore from Palawan Island in the Philippines. Husky has increased its interest in the block to 33 per cent by sharing the costs of the well equally with another company. The well is scheduled for a depth of more than 10,000 feet and is being drilled by the Glomar Tasman rig on the approximately 150,000 acre block held by the group under a 1973 service contract.

In the United Kingdom sector of the North Sea, Husky has a 10 percent interest in an exploratory well presently drilling on Block 16/26. The company also participated in two exploratory wells in the United Kingdom sector which were drilled and abandoned.

Production

Husky's gross crude oil production for the first six months of 1977 averaged approximately 46,800 barrels per day compared to 47,100 barrels per day during the first half of 1976. Net crude oil production was 33,700 barrels per day compared to 40,000 barrels per day last year. The reduction in net crude oil volumes is largely a result of a change by the Saskatchewan Government in its method of revenue collection on oil and natural gas production. Although the new royalty method has the effect of reducing Husky's net crude oil volumes, production income is not significantly reduced by the change.

Gross natural gas production during the first six months of 1977 increased to 84.5 million cubic feet per day from 80.2 million cubic feet per day for the similar period in 1976. Net natural gas production increased to 64.5 million cubic feet per day from 60.5 million cubic feet per day last year. The increases in natural gas volumes are primarily due to additional production from Quirk Creek in Canada and various properties in the State of New Mexico in the United States.

Development of Husky's 1976 offshore Louisiana natural gas discovery is progressing ahead of schedule. The number two well, or the first development well, was drilled from a production platform in a northwesterly direction and reached total depth about one mile from the discovery well. The natural gas sands encountered in the discovery well are indicated in the offset well. The third well is being drilled in a northeasterly direction from the discovery well.

The successful development drilling programs in the Ackman Unit in Nebraska and offsetting the Rangely Unit in northwest Colorado are expected to continue throughout 1977. In Rangely, six wells have been drilled and completed and a seventh is drilling. In the Ackman Unit five wells in a ten well program have been drilled and completed.

The posted price for Canadian crude oil production at the wellhead, was increased $1.00 per barrel on July 1. The Canadian government has announced scheduled price increases of the same magnitude for January 1, 1978, July 1, 1978 and January 1, 1979. Part of these price increases will be passed on to the producer.

Refining and Marketing

Refining throughput for the first half of 1977 increased to 56,000 barrels per day from 53,900 barrels per day for the first six months last year. These volumes do not reflect the crude oil processed for another refiner. The latter is expected to average about 9,000 barrels per day for the remainder of the year at the North Salt Lake refinery.

Refined product sales this year totaled 61,000 barrels per day, an increase of 1,400 barrels per day over the same period in 1976. Additional sales from the marketing outlets acquired from another company in Canada late in 1976 and a generally improved overall sales performance contributed to an 11 per cent increase in light oil sales in the first half of 1977. Heavy oil sales, including volumes from a refinery acquired late last year in Canada were up 25 per cent over the 1976 results while heavy oil sales in the United States reflected a planned reduction in volume.

Expansion and modernization programs at Husky's refineries at Cheyenne, Wyoming and Prince George, British Columbia, are underway.

The facilities under construction at Cheyenne will increase refinery throughput capacity from 24,000 to 30,000 barrels per day, combine three existing crude units into one with an improvement in fuel efficiency, enhance environmental protection, provide the option of converting the residuals and asphalts to gasolines and distillates and will also include a new computerized truck loading system.

An enlarged sulphur recovery plant will remove in excess of 99 per cent of the sulphur emissions from the produced fuel gas. The modernized refinery will be designed to run on more types of feedstocks than it can at the present as well as the types of crudes that we expect will be available in the future. Work should be completed on this program in the summer of 1978.

Extensive modifications to the Prince George refinery will debottleneck the existing plant and increase throughput capacity from 8,000 to 10,000 barrels per day. With the expansion, the plant will produce approximately 4,200 barrels per day of gasolines and 4,100 barrels per day of distillates, doubling its current capacity for these products.

The modifications will include the installation of a fluid catalytic cracking unit and other associated facilities. It is expected this project will be completed in 1978.

Under the terms of a previously announced long term contract, initial deliveries of 25,000 barrels per day of Lloydminster blend to a major oil company in Canada were commenced July 1, 1977. In addition, Husky's refinery in the area processes 11,000 barrels per day while other volumes are currently moving in response to firm demand from U.S. and Canadian refineries.

Gate City Steel

Gate City Steel experienced a period of depressed markets and the resulting highly competitive conditions contributed to a 22 per cent decline in after tax earnings and a 14 per cent decline in departmental cash operating income for the first half of 1977.

Results of improved operation of Gate City's new Gary, Indiana plant are expected to partially offset the effects of continued slow markets in the steel industry generally for the second half.

Husky Industries

The operations of the company briquetting and carbon subsidiary, Husky Industries, during the first six months of 1977 resulted in a slight increase in earnings over last year's record high performance for the period. Gross sales increased to $25.6 million from $24.6 million for the first half of the preceding year.

An activated carbon upgrading program has been completed and, as a result, the company anticipates additional marketing improvements in its industrial carbon division.

General

With all the emphasis and attention being given to the heavy oil industry, it is also important to remember that, in addition to Husky's substantial involvement in heavy oil, we are a fully integrated petroleum company involved in all aspects of the